## **Office of Inspector General**

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

# Semiannual Report to Congress

October 1, 2024–March 31, 2025



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## **Message From the Inspector General**



After 45 years of service in the oversight community working to ensure integrity and accountability in government and to protect the American taxpayer, I have decided to retire. Reflecting on my 14 years as inspector general of the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau, I am incredibly proud of the work we have accomplished. Our office evolved over my tenure as we met added oversight responsibilities associated with the CFPB, established field offices to extend the reach and effectiveness of

our criminal investigators, and created our Office of Information Technology to conduct audits of critical Board and CFPB systems, among many other developments. Throughout these changes, however, our mission, vision, and values have remained unchanged.

Over the past 6 months, we continued to fulfill our critical mission of providing independent and objective oversight of the Board and the CFPB. Our independent oversight delivers results that promote agency excellence while also preventing and detecting fraud, waste, and abuse.

During this reporting period, we issued five reports related to the programs and operations of the Board. We completed our annual audit of the Board as required by the Federal Information Security Modernization Act of 2014 (FISMA); while the Board's information security program remains effective as a whole, we made nine new recommendations to strengthen the program. Another report assessed the timeliness of the Board's revised review process for fair lending matters and found that the Board and the Federal Reserve Banks generally met their revised timing goals. In another report, we made two recommendations to enhance the effectiveness of the Board and Reserve Banks' Bank Exams Tailored to Risk process, which allows Reserve Bank examination staff to tailor their supervisory activities. And finally, we contracted with an independent public accounting firm to complete the annual financial statement audits for the Board and the Federal Financial Institutions Examination Council.

We issued three reports related to the programs and operations of the CFPB. We completed our annual audit of the CFPB's information security program pursuant to FISMA; although the CFPB's information security program remains effective as a whole, we made eight new recommendations to strengthen the program. In another report, we analyzed the CFPB's process for onboarding depository institutions that cross the \$10 billion asset threshold and therefore transition to CFPB oversight; we made four recommendations to improve this onboarding process. And in a third report, we made one recommendation to help the CFPB strengthen guidance on cost-increase modifications to ensure that the CFPB maximizes value from its contracting activities.

Our Office of Investigations continues to send a strong message that those who commit wrongdoing against the Board or the CFPB will be held accountable. In December, for instance, a former bank general counsel in Connecticut pleaded guilty to offenses stemming from a decade-long, \$7.4 million embezzlement scheme. Additionally, in January, American Express agreed to pay \$108.7 million to settle allegations that it deceptively marketed credit card and wire transfer products and used falsified account information.

Investigators also continue to track down those who defrauded pandemic relief programs. In November, for example, the cofounders of Blueacorn, a Paycheck Protection Program lender service provider, were charged in connection with a scheme to fraudulently obtain COVID-19 relief money, and in January, a California husband and wife who received nearly \$1.4 million in loans were sentenced to 36 months and 27 months of imprisonment, respectively, for defrauding the Paycheck Protection Program.

Our Office of Investigations also investigated multiple cases involving former employees of the agencies we oversee. In January, a former senior adviser for the Board was indicted on charges that he passed sensitive financial information to the Chinese government. And in March, a former senior manager of the Federal Reserve Bank of Richmond who had access to confidential supervisory information was sentenced for insider trading and making false statements.

Overall, in the past 6 months, our Office of Investigations closed 33 investigations and resolved 241 hotline complaints. Our work resulted in 9 referrals for criminal prosecution; 23 arrests; 13 indictments; 13 criminal informations; 19 convictions; and nearly \$204 million in criminal and civil monetary recoveries.

I'd like to thank the Office of Inspector General staff, who have continuously impressed me every day with their talent, determination, expertise, creativity, and teamwork. They have also demonstrated exceptional professionalism, extraordinary resilience, and an unwavering commitment to our mission throughout the years of my service. I am profoundly grateful that they have dedicated their careers to the important work of improving economy, efficiency, and effectiveness and preventing and detecting fraud, waste, and abuse. I wish the OIG staff all the best in the years to come. I'll forever be cheering them on!

Sincerely,

Mark Bialle

Mark Bialek Inspector General March 31, 2025

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# Highlights

We continued to promote the integrity, economy, efficiency, and effectiveness of the programs and operations of the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau. The following are highlights, in chronological order, of our work during this semiannual reporting period.



## The Board's Information Security Program

The Board's information security program continues to operate effectively at a level-4 (*managed and measurable*) maturity. However, the Board can strengthen its information security program in eight distinct areas.

## The CFPB's Information Security Program

The CFPB's information security program continues to operate effectively at a level-4 (*managed and measurable*) maturity. However, the CFPB can strengthen its information security program in six distinct areas.

## **The Board's Financial Statements Audit**

The independent public accounting firm we contracted with found that the Board's financial statements presented fairly, in all material respects, the financial position of the Board as of December 31, 2024 and 2023, and the results of its operations and its cash flows for those years in conformity with U.S. generally

accepted accounting principles. The auditors also found that the Board maintained, in all material respects, effective internal control over financial reporting and found no instances of noncompliance with laws, regulations, contracts, or other matters.

## The CFPB's Transitioning of Depository Institutions

The CFPB did not timely or effectively complete most of the transitions of institutions to its oversight that we reviewed, in some cases taking over a year to complete key onboarding steps. The agency also took varying approaches to coordinating with the prudential regulators.

## The Federal Financial Institutions Examination Council's Financial Statements Audit

The independent public accounting firm we contracted with found that the Federal Financial Institutions Examination Council's (FFIEC) financial statements presented fairly, in all material respects, the financial position of the FFIEC as of December 31, 2024 and 2023, and the results of operations and cash flows for those years in accordance with U.S. generally accepted accounting principles. The auditors did not identify any deficiencies in internal control over financial reporting; any instances of noncompliance with laws, regulations, contracts, and grant agreements; or any other matters.



## Former Board Senior Adviser Indicted on Charges of Economic Espionage

John Harold Rogers, a former senior adviser in the Board's Division of International Finance, allegedly passed trade-secret information to Chinese government officials posing as graduate students and made false statements about his activities to our investigators. He faces up to 15 years in prison and a \$5 million fine for conspiracy to commit economic espionage and up to 5 years in prison for making false statements.

## Former Senior Manager of the Federal Reserve Bank of Richmond Sentenced for Insider Trading and Making False Statements

Robert Brian Thompson, a former Federal Reserve Bank of Richmond (FRB Richmond) employee, was sentenced to 24 months in prison with 24 months of supervised release and ordered to pay a \$200 assessment and \$771,678 in asset forfeiture. Thompson pleaded guilty to misappropriating confidential information to execute trades in publicly traded financial institutions. He concealed his

scheme—and over \$771,000 in personal profits—by falsely representing his assets on his annual financial disclosures. He faces up to 20 years in prison for insider trading and up to 5 years in prison for making false statements.

## Former Bank General Counsel Pleaded Guilty in \$7.4 Million Embezzlement Scheme

James Blose, who held high-ranking positions at several banks, pleaded guilty in Connecticut to bank fraud, which carries up to 30 years in prison, and engaging in illegal monetary transactions, which carries up to 10 years in prison, stemming from a decade-long embezzlement scheme through which he stole about \$7.4 million from the banks he worked for.

## Introduction

Established by Congress, we are the independent oversight authority for the Board and the CFPB. In fulfilling this responsibility, we conduct audits, evaluations, investigations, and other reviews related to Board and CFPB programs and operations.

In accordance with the Inspector General Act of 1978 (5 U.S.C. §§ 401–424), our office has the following responsibilities:

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

Congress has also mandated additional responsibilities that influence our priorities, including the following:

- Section 15010 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; 15 U.S.C. § 9001 note) established the Pandemic Response Accountability Committee (PRAC) within the Council of the Inspectors General on Integrity and Efficiency (CIGIE). PRAC is required to conduct and coordinate oversight of covered funds and the coronavirus response to detect and prevent fraud, waste, abuse, and mismanagement and to identify major risks that cut across programs and agency boundaries. PRAC is also required to submit reports related to its oversight work to relevant federal agencies, the president, and appropriate congressional committees. The CIGIE chair named our inspector general (IG) as a member of PRAC, and as such, we participate in meetings, conduct oversight activities, and contribute to reporting responsibilities.
- The Federal Information Security Modernization Act of 2014 (FISMA; 44 U.S.C. § 3555) 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 programs and practices, including testing the effectiveness of security controls and practices for selected information systems.

- Section 11B of the Federal Reserve Act (12 U.S.C. § 248b) 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.<sup>1</sup> Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the U.S. Government Accountability Office performs the financial statement audit of the CFPB.
- The Payment Integrity Information Act of 2019 (PIIA; 31 U.S.C. §§ 3351–58) 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 Civil Penalty Fund is subject to the PIIA. The PIIA requires us to determine each fiscal year whether the agency complies with the act.
- The Government Charge Card Abuse Prevention Act of 2012 (5 U.S.C. § 5701 note and 41 U.S.C. § 1909(d)) requires us to conduct periodic risk assessments and audits of the Board's and 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 211(f) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. § 5391(f)) requires that we review and report on the Board's supervision of any covered financial company that is placed into receivership. We are 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 (5 U.S.C. § 424 note) 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 IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight.<sup>2</sup> Additionally, CIGFO must report annually about the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector. CIGFO can also 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.

<sup>1.</sup> The FFIEC is a formal interagency body empowered to (1) prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the CFPB and (2) make recommendations to promote uniformity in the supervision of financial institutions.

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 Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, the U.S. Securities and Exchange Commission, and the Office of the Special Inspector General for the Troubled Asset Relief Program.

- Section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Act (12 U.S.C. § 1831o(k)), outlines certain review and reporting obligations for our office when a state member bank failure occurs. The nature of those review and reporting requirements depends on the size of the loss to the Deposit Insurance Fund (DIF).
- The Federal Reserve Act, as amended by the USA PATRIOT Act of 2001 (12 U.S.C. § 248(q)), grants the Board certain federal law enforcement authorities. We perform the external oversight function for the Board's law enforcement program.

# **Pandemic Response Oversight**

In response to the economic disruptions caused by the COVID-19 pandemic, the Board took steps to support the flow of credit to U.S. households and businesses. Notably, the Board used its emergency lending authority under section 13(3) of the Federal Reserve Act to create lending programs, with the approval of the secretary of the U.S. Department of the Treasury, to ensure liquidity in financial markets and to provide lending support to various sectors of the economy. In addition, the CFPB played a vital role throughout the pandemic by enforcing federal consumer protection laws and protecting consumers from abuse.

Although the federal government announced an end to the COVID-19 public health emergency on May 11, 2023, matters related to the lending programs, in particular, investigations of alleged fraud, will continue for the foreseeable future. Two of the Board's lending facilities are still active. The Main Street Lending Program (MSLP) and the Paycheck Protection Program Liquidity Facility (PPPLF) are in the repayment phase, with borrowers repaying MSLP loans and PPPLF participants providing payments against advances. The Board continues to submit monthly reports to Congress summarizing this activity.

## **Audits and Evaluations**

In 2020, we initiated a pandemic response monitoring effort for risk assessment purposes and as part of our audit planning activities. We primarily focused on the Board's pandemic response lending programs, which helped to inform our selection of prospective audit and evaluation topics. Although the CFPB was not directly funded by the CARES Act or tasked with CARES Act requirements, the agency played a vital role in protecting consumers from pandemic-related consumer financial fraud and abuse. Since the start of our monitoring effort, we have issued 11 pandemic response–related audit and evaluation reports.

## Investigations

Our Office of Investigations is dedicated to identifying and investigating potential fraud related to the lending facilities that are central to the Board's pandemic response. In conducting our work in this area, we have leveraged our relationships with various federal law enforcement organizations, U.S. attorney's offices, PRAC, and other offices of inspector general. Since the start of the pandemic, our work has resulted in 166 full investigations; 152 arrests; 130 convictions; and nearly \$391 million in criminal fines, restitution, civil judgments, and special assessments. During this reporting period, we opened 2 full investigations; made 17 arrests; had 12 convictions; and had nearly \$28 million in criminal and civil monetary recoveries. Our recent investigative results and recoveries are described in the Investigations section of this report.

## Audits, Evaluations, and Other Reviews

Audits assess aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. For example, we oversee audits of the Board's financial statements and conduct 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. We perform our audits according to *Government Auditing Standards*, issued by the comptroller general of the United States.

Evaluations also assess aspects of the economy, efficiency, and effectiveness of Board and CFPB programs and operations. Evaluations are generally focused on the effectiveness of specific programs or functions; we also conduct our legislatively mandated reviews of failed financial institutions supervised by the Board as evaluations. We perform our evaluations according to *Quality Standards for Inspection and Evaluation*, issued by CIGIE.

Other reviews may include risk assessments, data analytics or other testing, and program and operational reviews that may not be performed in accordance with audit or evaluation standards.

The information below summarizes our audits, evaluations, and other reviews completed during the reporting period.

## **Board of Governors of the Federal Reserve System**

## 2024 Audit of the Board's Information Security Program

#### 2024-IT-B-020

#### October 31, 2024

The Office of Management and Budget's fiscal year 2023–2024 guidance for FISMA reporting directs IGs to evaluate the maturity level (from a low of 1 to a high of 5) of their agency's information security program for fiscal year 2023. In accordance with FISMA requirements, we assessed the effectiveness of the Board's (1) security controls and techniques for selected information systems and (2) information security policies, procedures, standards, and guidelines.

The Board's information security program continues to operate effectively at a level-4 (*managed and measurable*) maturity. Since our review last year, we found that the Board has taken steps to strengthen its information security program, for example, by updating its personnel security processes to help ensure position risk designations are documented and used in personnel security processes.

However, the Board can strengthen its information security program. Specifically, the Board should develop a supply chain risk management strategy; define a review and escalation process for alerts generated by the Board's data loss prevention (DLP) tool; consistently document system interconnections and required documentation; perform vulnerability scanning on mobile devices and applications; annually test, review, and approve the incident notification and breach response plan to maintain organizational cyber resiliency; provide role-based privacy training to help ensure that individuals are knowledgeable and aware of their privacy roles and responsibilities; perform targeted phishing exercises to increase the cyber awareness of the Board's executives and those with significant security responsibilities; and ensure that contractual requirements for the Board's cloud service providers for the timely reporting of incidents are consistent with federal requirements.

Fourteen recommendations from our prior FISMA audit reports remain open. This report contains nine new recommendations. The Board concurs with our recommendations. We believe that if sufficient progress is not made to address our open recommendations, the Board's information security program maturity rating could decline in 2025.

# The Board and the Reserve Banks Generally Met the Revised Timing Goals for Certain Fair Lending Matters

#### 2025-SR-B-001

#### February 5, 2025

In January 2021, the Board implemented a revised review process for submitting and reviewing highrisk redlining matters to improve efficiency. *Redlining* is illegal discrimination that occurs when a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristics of the residents of the area where the prospective borrower resides, plans to reside, or seeks to obtain a mortgage on a residential property. We assessed the Board's implementation of its revised review process for high-risk redlining matters from examinations opened in 2022 and 2023, including delegating certain matters to the Reserve Banks.

We assessed the timeliness of the revised review process and found that the Board and the Reserve Banks generally met their revised timing goals for submitting and reviewing high-risk redlining matters. Therefore, our report does not have any recommendations.

## <u>Federal Financial Institutions Examination Council Financial Statements as</u> of and for the Years Ended December 31, 2024 and 2023, and Independent <u>Auditors' Report</u>

#### 2025-FMIC-B-002

The Board performs the accounting function for the FFIEC, and we contracted with an independent public accounting firm to audit the financial statements of the FFIEC. We reviewed and monitored the work of the firm to ensure compliance with applicable 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, 2024 and 2023, and the results of operations and cash flows for those years in accordance with U.S. generally accepted accounting principles. In addition, the auditors did not identify any deficiencies in internal control over financial reporting; any instances of noncompliance with laws, regulations, contracts, and grant agreements; or any other matters.

## <u>The Bank Exams Tailored to Risk Process Promotes Risk-Focused</u> <u>Supervision of Community Banking Organizations, but Training Can Be</u> <u>Enhanced</u>

#### 2025-SR-B-003

### March 3, 2025

February 24, 2025

The Board seeks to ensure that the institutions under its supervisory authority, including community banking organizations, operate in a safe and sound manner and comply with all applicable federal laws and regulations. We assessed the Board and Reserve Banks' application of the Bank Exams Tailored to Risk (BETR) process for community banking organizations.

We found that the BETR process allows Reserve Bank examination staff to tailor their supervisory activities to promote risk-focused supervision and effective resource allocation; however, additional training will enhance examiners' ability to use BETR to scope examinations and will increase the effectiveness of the BETR process. Management should also consider creating guidance on using BETR for institutions with unique business models or novel activities.

Our report contains two recommendations designed to enhance the effectiveness of the Board and Reserve Banks' BETR process. The Board concurs with our recommendations.

## Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2024 and 2023, and Independent Auditors' Reports

#### 2025-FMIC-B-004

#### March 4, 2025

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. We reviewed and monitored the work of the firm to ensure compliance with applicable 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, 2024 and 2023, and the results of its operations and its cash flows for those years in conformity with U.S. generally accepted accounting principles. Also, in the auditors' opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on the criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In addition, the auditors found no instances of noncompliance with laws, regulations, contracts, or other matters.

## **Consumer Financial Protection Bureau**

### 2024 Audit of the CFPB's Information Security Program

#### 2024-IT-C-019

### October 31, 2024

The Office of Management and Budget's fiscal year 2023–2024 guidance for FISMA reporting directs IGs to evaluate the maturity level (from a low of 1 to a high of 5) of their agency's information security program for fiscal year 2023. In accordance with FISMA requirements, we assessed the effectiveness of the CFPB's (1) security controls and techniques for selected information systems and (2) information security policies, procedures, standards, and guidelines.

The CFPB's information security program continues to operate effectively at a level-4 (*managed and measurable*) maturity. Since our review last year, we found that the CFPB has taken several steps to strengthen its information security program. For example, the agency improved its security training program by incorporating threat intelligence to update its workforce on a near-real-time basis.

However, the CFPB can strengthen its information security program. Specifically, the CFPB can mature DLP processes by developing data classification policies and procedures and by configuring its DLP tool accordingly; strengthen processes to ensure timely remediation of critical and high-risk vulnerabilities; ensure that system users are periodically reinvestigated to maintain access authorizations and privileges;

improve incident processes to effectively respond to a potential ransomware incident; strengthen organizational resiliency by conducting a comprehensive test of its continuity of operations plan; and ensure the accuracy of the information in its cybersecurity governance, risk, and compliance tool.

Three recommendations from our prior FISMA reports remain open. This report includes eight new recommendations. The CFPB concurs with our recommendations.

## <u>The CFPB Can Improve Its Process for Onboarding Depository Institutions</u> <u>That Transition to Its Oversight</u>

#### 2024-SR-C-021

#### **December 2, 2024**

A key mission of the CFPB is overseeing compliance with federal consumer financial laws and regulations for depository institutions with over \$10 billion in assets. From 2017 through 2023, 90 depository institutions crossed the \$10 billion threshold and transitioned to the CFPB's oversight. We assessed the CFPB's process for transitioning these depository institutions.

We found that the CFPB did not timely or effectively complete most of the transitions we reviewed, in some cases taking over a year to complete key onboarding steps. The agency also took varying approaches to coordinating with the prudential regulators. We attribute these issues to the CFPB not having established a program for onboarding depository institutions that transition to its oversight.

Our report contains four recommendations to enhance the CFPB's onboarding of depository institutions. The CFPB concurs with our recommendations.

# The CFPB Can Strengthen Guidance on Cost-Increase Modifications2024-FMIC-C-022December 9, 2024

Contracts with large cost increases or scope changes can pose financial and legal risks to federal agencies. We reviewed 29 CFPB contracts valued at \$244.5 million that, after undergoing cost modifications, grew to \$262.1 million.

CFPB contracting officers followed the *Federal Acquisition Regulation* and CFPB policies when awarding these contracts. However, for modifications, contracting officers did not consistently conduct and document price reasonableness determinations and obtain the expected reviews by the CFPB's Legal Division. Providing clear guidance will promote consistent assessments of modification pricing and help the CFPB maximize value from its contracting activities.

This report contains one recommendation designed to ensure that contracting officers assess prices on cost-increase modifications consistently. The CFPB concurs with our recommendation.

## **Failed State Member Bank Reviews**

## **Material Loss Reviews**

Section 38(k) of the Federal Deposit Insurance Act, as amended, requires that we complete a review of the agency's supervision of a failed institution and issue a report within 6 months of notification from the Federal Deposit Insurance Corporation (FDIC) OIG that the projected loss to the DIF is material. Section 38(k) defines a material loss to the DIF as an estimated loss in excess of \$50 million.

The material loss review provisions of section 38(k) require that we 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 material state member bank failures occurred during the reporting period.

## **Nonmaterial Loss Reviews**

The Federal Deposit Insurance Act, as amended, requires that we semiannually report certain information on financial institutions that incur nonmaterial losses to the DIF and that fail during the 6-month period.

When bank failures result in nonmaterial losses to the DIF, the IG must 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 6-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.

No nonmaterial state member bank failures occurred during the reporting period.

## Investigations

Our Office of Investigations investigates criminal, civil, and administrative wrongdoing by Board and CFPB employees as well as alleged misconduct or criminal activity that affects the Board's or the CFPB's ability to effectively supervise and regulate the financial community. We operate under statutory law enforcement authority granted by the U.S. attorney general, which vests our special agents with the authority to carry firearms, to seek and execute search and arrest warrants, and to make arrests without a warrant in certain circumstances. Our investigations are conducted in compliance with *Quality Standards for Investigations*, issued by CIGIE, and Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority.

The Board is responsible for consolidated supervision of bank holding companies and state-chartered banks that are members of the Federal Reserve System, known as *state member banks*. Under delegated authority from the Board, the Reserve Banks supervise bank holding companies and state member banks, and the Board's Division of Supervision and Regulation oversees the Reserve Banks' supervisory activities. Our investigations concerning bank holding companies and state member banks typically involve allegations that senior officials falsified financial records, lied to or misled examiners, or obstructed examinations.

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

Many of our investigations during this semiannual reporting period concern fraud related to the Federal Reserve's pandemic response efforts, including the MSLP, which supported lending to small and mediumsized for-profit and nonprofit organizations in sound financial condition before the COVID-19 pandemic, and the PPPLF, which extended credit to eligible financial institutions and took Paycheck Protection Program (PPP) loans guaranteed by the U.S. Small Business Administration (SBA) as collateral. In addition, our office also conducted investigations in support of our membership on PRAC. Our office is also part of the U.S. Department of Justice's (DOJ) COVID-19 Fraud Enforcement Task Force. The following are examples of our investigative activity made public during this reporting period.

#### Miami Bank Employee Pleaded Guilty to Embezzlement

Billy Gedeon, an employee at an international financial institution in Florida, pleaded guilty to embezzling over \$190,000 from a deceased customer's accounts. Gedeon faces up to 30 years in prison.

Gedeon admitted that after learning a regular bank customer had died, he went into the deceased customer's accounts several times without authorization. Gedeon stole over \$190,000 from one of the accounts by forging the deceased customer's signature on a bank form to close the account. Gedeon withdrew all the money and deposited it into his personal account at another bank.

We investigated this case with the U.S. Secret Service. The U.S. Attorney's Office for the Southern District of Florida and the DOJ are prosecuting.

## Former Board Senior Adviser Indicted on Charges of Economic Espionage

John Harold Rogers, of Virginia, a former senior adviser for the Board, was charged with conspiracy to commit economic espionage and with making false statements. He faces up to 15 years in prison and a \$5 million fine for conspiracy to commit economic espionage and up to 5 years in prison for making false statements. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

According to the allegations, Rogers, a U.S. citizen with a Ph.D. in economics, worked as a senior adviser in the Board's Division of International Finance from 2010 until 2021. His coconspirators worked for Chinese government intelligence and security but posed as graduate students at a university in China. From at least 2018, Rogers collected trade-secret information and passed that information electronically to his personal email account, in violation of Board policy, or printed it before traveling to China for meetings with his coconspirators. Ostensibly in China to teach classes, Rogers met with his coconspirators in hotel rooms and passed on the information he collected. As part of the conspiracy, Rogers made false statements to our office, which had a material effect on our investigation.

We investigated this case with the Federal Bureau of Investigation (FBI). The U.S. Attorney's Office for the District of Columbia and the DOJ are prosecuting.

### Washington Man Pleaded Guilty to Extorting Clients Using Phony Escorts

Abdul Kareem Kabba, of Washington, pleaded guilty to using phony online escort profiles to extort hundreds of thousands of dollars from clients. Kabba faces up to 20 years in prison.

From at least August 2020 through October 2024, Kabba used photos and videos of women purchased from OnlyFans to create fake online escort profiles. Posing as an escort, Kabba asked prospective clients to send a deposit using peer-to-peer payment platforms or through adult websites and to verify their identities by sending a picture of themselves holding a form of identification and a link to their social media profiles. After a prospective client paid the deposit and sent the identifying information, Kabba would blackmail them, threatening to alert the police, the individuals' families, and the individuals' employers. As a result of his scheme, Kabba caused a total loss of \$692,000 to his victims.

The U.S. Attorney's Office for the Eastern District of Virginia and the DOJ are prosecuting this case.

# American Express Agreed to Pay \$108.7 Million to Settle Allegations of Deceptive Marketing and Falsifying Accounts

American Express, based in New York, New York, agreed to pay a \$108.7 million civil penalty to resolve allegations that it deceptively marketed credit card and wire transfer products and falsified information in credit card accounts. American Express will also enter into a nonprosecution agreement with the U.S. Attorney's Office for the Eastern District of New York and pay a criminal fine and forfeiture.

According to the allegations, American Express deceptively marketed credit cards to small businesses through an affiliate that misrepresented card rewards and fees; conducting credit checks without customers' consent; and submitted falsified financial information, such as overstated income, for prospective customers. American Express also falsified information to deceive its federally insured financial institution into allowing small businesses to acquire American Express credit cards. Finally, American Express deceptively marketed wire transfer products, making false claims about their tax benefits to small businesses.

We investigated this case with the FDIC OIG and the Treasury OIG. The DOJ handled the settlement with assistance from the Board and the Office of the Comptroller of the Currency.

## California Couple Sentenced to Prison for \$1.4 Million PPP Fraud

Spouses Christopher A. Mazzei and Erin V. Mazzei, of California, were sentenced to 36 months and 27 months in prison, respectively, for conspiracy to commit wire fraud and conspiracy to commit money laundering in connection with a scheme to defraud the government of forgivable PPP loan funds.

Christopher and Erin Mazzei submitted applications for PPP funds to the Bank of Hawaii and two other banks on behalf of three purported businesses, each time using interstate wires. For each application, the Mazzeis created false Internal Revenue Service (IRS) tax returns and payroll records to support their claims. The Mazzeis received nearly \$1.4 million in PPP loan funds, which they then used for personal purposes, such as to purchase multiple vehicles and a home in Hawaii and to film a promotional trailer for a television project that they hoped to produce in Hawaii.

We investigated this case with the FDIC OIG and the IRS Criminal Investigation (CI), with assistance from the SBA OIG and the Treasury Inspector General for Tax Administration. The U.S. Attorney's Office for the District of Hawaii prosecuted.

## Former Bank General Counsel Pleaded Guilty in \$7.4 Million Embezzlement Scheme

James Blose, of Connecticut, pleaded guilty to one count of bank fraud, which carries up to 30 years in prison, and to one count of engaging in illegal monetary transactions, which carries up to 10 years in prison, stemming from a decade-long embezzlement scheme at banks where he held high-ranking positions.

Over a decade, Blose was an attorney and held high-ranking positions, including executive vice president and general counsel, at Hudson Valley Bank, Sterling National Bank, and Webster Bank. Blose defrauded his employers in various ways. He fraudulently retained for himself portions of closing costs from commercial loan transactions as well as portions of sale proceeds. He also used his attorney trust accounts for personal expenditures. Through this scheme, Blose stole about \$7.4 million from his employers. When Webster Bank discovered his scheme, it terminated his employment.

We investigated this case with the FBI and the IRS CI, with assistance from Webster Bank. The U.S. Attorney's Office for the District of Connecticut is prosecuting.

## **Cofounders of PPP Lender Service Provider Charged for PPP Fraud**

Nathan Reis and Stephanie Hockridge, of Puerto Rico and previously of Arizona, were charged with one count of conspiracy to commit wire fraud and four counts of wire fraud in connection with a scheme to fraudulently obtain PPP funds. If convicted, they face up to 20 years in prison for each count. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

According to the allegations, Reis and Hockridge, two cofounders of Blueacorn, a lender service provider that helped small businesses and individuals obtain PPP loans, submitted false and fraudulent PPP loan applications on behalf of themselves and their businesses to receive loan funds for which they were not eligible. To obtain larger loans for certain PPP applicants, Reis and other coconspirators fabricated documents, including payroll records, tax documentation, and bank statements. Reis and Hockridge charged borrowers illegal kickbacks based on a percentage of the funds received.

We investigated this case with the FBI, the IRS CI, the Special Inspector General for Pandemic Recovery, and the SBA OIG. The DOJ and the U.S. Attorney's Office for the Northern District of Texas are prosecuting.

# Former Senior Manager of FRB Richmond Sentenced for Insider Trading and Making False Statements

Robert Brian Thompson, of Virginia, was sentenced to 24 months in prison with 24 months of supervised release and ordered to pay a \$200 assessment and \$771,678 in asset forfeiture. Thompson pleaded guilty to misappropriating confidential information to execute trades in publicly traded financial institutions. He faces up to 20 years in prison for insider trading and up to 5 years in prison for making false statements.

Thompson, who worked as a bank examiner and senior manager at FRB Richmond, misappropriated confidential information, including confidential supervisory information, to execute trades in publicly traded financial institutions. Over several years, Thompson made 69 trades of seven publicly traded financial institutions, which resulted in over \$771,000 in personal profits. To conceal the scheme, Thompson falsely represented on his required annual financial disclosures that he had no assets, including no equities in any publicly traded financial institutions, and that he had not engaged in any activity that would constitute conflicts of interest, violations of FRB Richmond policies, or violations of law.

The DOJ and the U.S. Attorney's Office for the Eastern District of Virginia are prosecuting this case.

## **Two Former Broward Deputy Sheriffs Convicted of PPP Fraud**

Tracy Wade and Carolyn Wade, both former deputy sheriffs with the Broward County Sheriff's Office in Florida, were convicted of conspiracy to commit wire fraud, wire fraud, conspiracy to make false statements to the SBA, and making false statements to the SBA, all in connection with obtaining PPP loans based on false information. They face up to 20 years for conspiracy to commit wire fraud, 20 years for each count of wire fraud, 5 years for conspiracy to make false statements to the SBA, and 2 years for each count of making false statements to the SBA.

While employed as deputy sheriffs, Tracy and Carolyn Wade applied for and received PPP loans for phony sole proprietor businesses using falsified IRS tax forms submitted with each application. The Wades also applied for and received forgiveness of their fraudulently obtained PPP loans based on additional falsehoods, which included falsely representing to the SBA that they had spent their loan proceeds on payroll.

We investigated this case with the FBI and the Broward County Sheriff's Office. U.S. Attorney's Office for the Southern District of Florida prosecuted.

### Lancaster Man Sentenced to Prison for PPP Fraud

Larry Jordan, of New York, was sentenced to 18 months in prison for conspiracy to commit bank fraud and wire fraud in a scheme to file fraudulent loan applications seeking forgivable PPP loans.

According to court documents, Jordan and his brother, Sutukh El, conspired to submit eight fraudulent PPP loan applications on behalf of companies they owned or controlled. The applications contained false statements about the payroll expenses of each company, which were used to calculate the amount of PPP funds they would receive. To corroborate the applications, Jordan and El submitted IRS forms that had never been filed with the IRS, as well as fraudulent payroll registers that purported to identify the names, personal information, and salary of the employees identified on the PPP applications. El was previously convicted and is awaiting sentencing.

We investigated this case with the FDIC OIG, the Federal Housing Finance Agency OIG, the FBI, and the SBA OIG. The U.S. Attorney's Office for the Western District of New York and the DOJ are prosecuting.

## Jefferson City Man Sentenced to Prison and Forfeiture for \$26 Million Bank Fraud Scheme

Tod Ray Keilholz, of Missouri, was sentenced to 12 years in prison without parole for a multimillion-dollar bank fraud scheme that included fraudulent PPP loans for four businesses. Keilholz had pleaded guilty to one count of bank fraud, one count of money laundering, and one count of aggravated identity theft. Under the terms of his plea agreement, Keilholz must forfeit \$12.4 million as well as multiple properties, vehicles, and luxury watches.

Keilholz was the sole owner of TRK Construction, TRK Valpo, TL Builders, and Project Design. In multiple PPP loan applications, he made false claims and used bogus documents to inflate the incomes of his businesses and to claim payrolls for employees who did not exist or no longer worked for him. Although denied one PPP loan of \$7.8 million, he received over \$12.4 million in PPP loans as a result of his scheme. Rather than use the proceeds for payroll and other business expenses as required, Keilholz paid down debts. The conviction for aggravated identity theft is related to Keilholz's unauthorized use of the name and Social Security number of a former TRK Construction employee on wage reports in connection with a fraudulent PPP loan application for TRK Valpo.

We investigated this case with the SBA OIG, the Treasury Inspector General for Tax Administration, the FBI, and the IRS CI. The U.S. Attorney's Office for the Western District of Missouri prosecuted.

## Florida Woman Pleaded Guilty to Conspiring to Prepare Fraudulent Loan Applications Totaling More Than \$400,000

Lakeisha Black, also known as Lakeisha Pierce, pleaded guilty to conspiracy to make false statements to the SBA in connection with myriad fraudulent PPP loans. Black faces up to 5 years in prison for the conspiracy.

Black charged \$2,000–\$6,000 to prepare fraudulent PPP loan applications for at least 14 individuals, including three former Broward County Sheriff's Office deputies, who all previously pleaded guilty to the conspiracy in separate cases and have been sentenced. In total, Black is responsible for over \$400,000 in fraudulent PPP loans.

We investigated this case with the U.S. Department of Defense OIG, the Broward County Sheriff's Office, and the FBI. The U.S. Attorney's Office for the Southern District of Florida is prosecuting.

# Hotline

The <u>OIG Hotline</u> helps people report fraud, waste, abuse, and mismanagement related to the programs or operations of the Board and the CFPB. Hotline staff can be reached <u>online</u> or by phone, fax, or mail. We review all incoming hotline communications, research and analyze the issues raised, and determine how best to address the complaints.

During this reporting period, the OIG Hotline received 246 complaints. Complaints within our purview are evaluated and, when appropriate, referred to the relevant component within the OIG for audit, evaluation, investigation, or other review. Some complaints convey concerns about matters within the responsibility of other federal agencies or matters that should be addressed by a program or operation of the Board or the CFPB. We refer such complaints to the appropriate federal agency for evaluation and resolution.

We continue to receive noncriminal consumer complaints regarding consumer financial products and services. For these matters, we typically refer complainants to the consumer group of the appropriate federal regulator for the institution involved, such as the CFPB's Office of Consumer Response, Federal Reserve Consumer Help, or other law enforcement agencies as appropriate. In addition, we receive misdirected complaints regarding COVID-19 pandemic—related programs and operations. In such cases, we refer either the individual or the original complaint to the appropriate agency for further evaluation.
## Legislative and Regulatory Review, Congressional and Media Activities, and CIGIE Participation



## Legislative and Regulatory Review

Our Office of Legal Services (OLS) is the independent legal counsel to the IG and OIG staff. OLS provides comprehensive legal advice, research, counseling, analysis, and representation in support of our audits, evaluations, and investigations, as well as other professional, management, and administrative functions. OLS also keeps the IG and OIG staff aware of recent legal developments that may affect us, the Board, or the CFPB.

In accordance with the Inspector General Act of 1978 (5 U.S.C. 404(a)(2)), OLS 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, OLS reviewed 4 legislative items and 2 regulatory items.

## **Congressional and Media Activities**

We communicate and coordinate with various congressional committees on issues of mutual interest. During this reporting period, we provided 25 responses to congressional members and staff concerning the Board and the CFPB. Additionally, we responded to 24 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.

As part of the OIG community, we are proud to be part of the Oversight.gov effort. Oversight.gov is a searchable website containing the latest public reports from federal OIGs. It provides access to 32,742 reports and nearly 13,300 open recommendations to improve programs across the federal government, and it reports around \$136.8 billion in potential savings for fiscal year 2024.

During the reporting period, the IG served as a member of CIGIE's Legislation Committee and Technology Committee and was the vice chair of the Investigations Committee. The Legislation Committee is the central point of information for legislative initiatives and congressional activities that may affect the OIG community. The Technology Committee facilitates effective information technology audits, evaluations, and investigations and provides a forum for the expression of the OIG community's perspective on governmentwide information technology operations. The Investigations Committee advises the OIG community on issues involving criminal investigations, criminal investigations personnel, and criminal investigative guidelines.

In addition, the IG served on CIGIE's PRAC, which coordinates oversight of federal funds authorized by the CARES Act and the COVID-19 pandemic response. The IG was the vice chair of the PRAC Investigations Subcommittee.

Our assistant inspector general for information technology, as the chair of the Information Technology Committee of the Federal Audit Executive Council, works with information technology professionals throughout the OIG community and reports to the CIGIE Technology Committee on common information technology audit issues. Our OLS attorneys are members of the Council of Counsels to the Inspector General, and our Quality Assurance staff founded the Federal Audit Executive Council's Quality Assurance Work Group, which in 2023 became a permanent committee called the Quality Management Committee. Our Quality Assurance staff are members of the permanent committee.

## **Peer Reviews**

Government auditing and investigative standards require that our audit, evaluation, and investigative units be reviewed by a peer OIG organization every 3 years. The Inspector General Act of 1978 requires that OIGs provide in their semiannual reports to Congress information about (1) the most recent peer reviews of their respective organizations and (2) their peer reviews of other OIGs conducted within the semiannual reporting period. The following information addresses these requirements.

- In March 2023, the DOJ OIG completed an inspection and evaluation peer review of our evaluation activities. The review team determined that our evaluation policies and procedures are consistent with the December 2020 *Quality Standards for Inspection and Evaluation* and that the reports reviewed generally complied with the covered standards and our internal policies and procedures. There were no pending recommendations from prior peer reviews.
- In September 2023, the OIG for the National Aeronautics and Space Administration conducted a peer review of our audit organization. We received a peer review rating of *pass*. There were no pending recommendations from prior peer reviews.
- In September 2023, the OIG for the U.S. Department of Commerce completed the latest peer review of our Office of Investigations and rated us as *compliant*. There were no report recommendations, and we had no pending recommendations from previous peer reviews of our investigations organization.
- In March 2025, we completed a peer review of the U.S. Department of Education OIG's inspection and evaluation activities and assigned a *pass* rating. There were no pending recommendations from prior peer reviews.
- In March 2025, we completed a peer review of the U.S. Department of Commerce OIG's investigative operations and rated that organization as *compliant*. There were no pending recommendations from prior peer reviews.

See our website for peer review reports of our organization.

## **Appendix A: Statistical Tables**

# Table A-1. Audit and Evaluation Reports and Other Reviews Issued to the Board During the Reporting Period

Report title	Type of report
2024 Audit of the Board's Information Security Program	Audit
The Board and the Reserve Banks Generally Met the Revised Timing Goals for Certain Fair Lending Matters	Evaluation
Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2024 and 2023, and Independent Auditors' Report	Audit
The Bank Exams Tailored to Risk Process Promotes Risk-Focused Supervision of Community Banking Organizations, but Training Can Be Enhanced	Evaluation
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2024 and 2023, and Independent Auditors' Reports	Audit
Total number of audit reports: 3 Total number of evaluation reports: 2	

# Table A-2. OIG Reports to the Board With Recommendations That WereOpen During the Reporting Period

		Rec	ommendati	ons	Status of	recomme	ndations
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
2016 Audit of the Board's Information Security Program	11/16	9	9	0	03/25	8	1
The Board Can Enhance Its Cybersecurity Supervision Approach in the Areas of Third- Party Service Provider Oversight, Resource Management, and Information Sharing	04/17	8	8	0	03/25	7	1
2017 Audit of the Board's Information Security Program	10/17	9	9	0	03/25	8	1
Security Control Review of the Board's Public Website (nonpublic)	03/18	7	7	0	03/25	7	0
2018 Audit of the Board's Information Security Program	10/18	6	6	0	01/25	5	1
2019 Audit of the Board's Information Security Program	10/19	6	6	0	10/24	4	2
2020 Audit of the Board's Information Security Program	11/20	4	4	0	03/25	4	0
The Board's Implementation of Enterprise Risk Management Continues to Evolve and Can Be Enhanced	09/21	3	3	0	03/25	3	0
The Board Can Strengthen Inventory and Cybersecurity Life Cycle Processes for Cloud Systems	03/22	3	3	0	03/25	0	3

See notes at end of table.

	-	Recommendations			Status of I	ecomme	ndations
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
Testing Results for the Board's Software and License Asset Management Processes (nonpublic)	06/22	1	1	0	09/24	0	1
2022 Audit of the Board's Information Security Program	09/22	1	1	0	10/24	0	1
The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals	12/22	9	9	0	03/25	6	3
The Board Can Further Enhance the Design and Effectiveness of the FOMC's Investment and Trading Rules	04/23	6	6	0	02/25	3	3
Material Loss Review of Silicon Valley Bank	09/23	7	7	0	03/25	2	5
Review of the Supervision of Silvergate Bank (nonpublic)	09/23	12	12	0	03/25	3	9
2023 Audit of the Board's Information Security Program	09/23	7	7	0	03/25	0	7
Results of Scoping of the Evaluation of the Board's Intelligence Programs (nonpublic)	12/23	6	6	0	12/24	6	0
The Board Should Provide Staff With Guidance on Controlled Unclassified Information	01/24	2	2	0	11/24	2	0
Material Loss Review of Heartland Tri-State Bank	02/24	2	2	0	01/25	2	0

See notes at end of table.

	_	Rec	ommendati	ons	Status of	recomme	ndations
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
Results of Security Control Testing of the Board's Embargo Application (nonpublic)	04/24	1	1	0	n.a.	0	1
FRB Minneapolis Followed Its Paycheck Protection Program Liquidity Facility Collateral Risk Management Processes and Can Enhance Monitoring and Collection Processes	09/24	1	1	0	02/25	0	1
The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce	09/24	7	7	0	n.a.	7ª	0
2024 Audit of the Board's Information Security Program	10/24	9	9	0	n.a.	0	9
The Bank Exams Tailored to Risk Process Promotes Risk-Focused Supervision of Community Banking Organizations, but Training Can Be Enhanced	03/25	2	2	0	n.a.	0	2

Note: 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.

n.a. not applicable.

<sup>a</sup> We canceled these recommendations in January 2025 and will not be pursuing follow-up activities for them.

# Table A-3. Audit and Evaluation Reports and Other Reviews Issued to theCFPB During the Reporting Period

Report title	Type of report
2024 Audit of the CFPB's Information Security Program	Audit
The CFPB Can Improve Its Process for Onboarding Depository Institutions That Transition to Its Oversight	Evaluation
The CFPB Can Strengthen Guidance on Cost-Increase Modifications	Audit
Total number of audit reports: 2 Total number of evaluation reports: 1	

# Table A-4. OIG Reports to the CFPB With Recommendations That WereOpen During the Reporting Period

		Reco	ommendat	ions	Status of recommendations		
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
2018 Audit of the Bureau's Information Security Program	10/18	4	4	0	01/25	3	1
Technical Testing Results for the Bureau's Legal Enclave (nonpublic)	07/20	4	4	0	03/25	3	1
2022 Audit of the CFPB's Information Security Program	09/22	6	6	0	01/25	5	1
2023 Audit of the CFPB's Information Security Program	09/23	1	1	0	10/24	0	1
The CFPB Can Enhance Certain Aspects of Its Enforcement Investigations Process	01/24	2	2	0	12/24	2	0
Results of Scoping of the Evaluation of the CFPB's Healthcare Benefits Eligibility Processes	03/24	4	4	0	09/24	1	3
The CFPB Can Enhance Certain Aspects of Its Examiner Commissioning Program	05/24	3	3	0	11/24	0	3
The CFPB Effectively Monitors Consumer Complaints but Can Enhance Certain Processes	06/24	3	3	0	03/25	3	0
2024 Audit of the CFPB's Information Security Program	10/24	8	8	0	n.a.	0	8

See notes at end of table.

		Reco	ommendat	ions	Status of r	ecomme	ndations
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
The CFPB Can Improve Its Process for Onboarding Depository Institutions That Transition to Its Oversight	12/24	4	4	0	n.a.	0	4
The CFPB Can Strengthen Guidance on Cost-Increase Modifications	12/24	1	1	0	n.a.	0	1

Note: 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.

n.a. not applicable.

### Table A-5. Audit and Evaluation Reports Issued to the Board and the CFPB During the Reporting Period With Questioned Costs, Unsupported Costs, or Recommendations That Funds Be Put to Better Use

Report	Dollar value
Not applicable	No data

Note: Because the Board and the CFPB are primarily regulatory and policymaking agencies, 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 A-6. Summary Statistics on Investigations During the Reporting
Period

Investigative actions	Number or dollar value <sup>a</sup>
Investigative caseload	
Investigations open at end of previous reporting period	132
Investigations opened during the reporting period	15
Investigations closed during the reporting period	33
Investigations open at end of the reporting period	114
Investigative results for the reporting period	
Persons referred to DOJ prosecutors	9
Persons referred to state/local prosecutors	0
Declinations received	7
Joint investigations	92
Reports of investigation issued	0
Oral and/or written reprimands	0
Terminations of employment	1
Unannounced entries (no-knock entries)	0
Arrests	23
Suspensions	0
Debarments	0
Prohibitions from banking industry	5
Indictments	13
Criminal informations	13
Criminal complaints	1
Convictions	19

See notes at end of table.

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nvestigative actions	Number or dollar value <sup>a</sup>
Civil actions	\$0
Administrative monetary recoveries and reimbursements	\$0
Civil judgments	\$109,694,957
Criminal fines, restitution, and special assessments	\$91,231,366
Forfeiture	\$3,195,094

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

<sup>a</sup> Metrics: These statistics were compiled from our investigative case management and tracking system.

# Table A-7. Summary Statistics on Hotline Activities During the ReportingPeriod

Hotline complaints	Number
Complaints pending from previous reporting period	4
Complaints received during reporting period	246
Total complaints for reporting period	250
Complaints resolved during reporting period	241
Complaints pending	9

## **Appendix B: Additional Mandated Reporting Requirements**

The Inspector General Empowerment Act of 2016 and the Securing Inspector General Independence Act of 2022 amended the semiannual reporting requirements for OIGs under section 5 of the Inspector General Act of 1978 to include additional summaries and statistics for the reporting period. Our response to these requirements is below.

## A report on each investigation in which allegations of misconduct were substantiated involving a senior government employee.

• A former senior adviser in the Board's Division of International Finance was charged with conspiracy to commit economic espionage and with making false statements. See the full details in the <u>Investigations</u> section.

## Detailed descriptions of investigations involving a senior government employee that were closed and not disclosed to the public.

• We have nothing to report.

## Detailed descriptions of inspections, evaluations, and audits that were closed and not disclosed to the public.

• We have nothing to report.

#### A detailed description of any instance of whistleblower retaliation.

• We have nothing to report.

#### Information related to interference by the Board or the CFPB.

• We have nothing to report.

## Appendix C: Open Recommendations Made Before the Reporting Period

The Securing Inspector General Independence Act of 2022 requires that we identify each recommendation made before the reporting period for which corrective action has not been completed, including the cost savings associated with the recommendation. Because the Board and the CFPB are primarily regulatory and policymaking agencies, 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.

## **Board of Governors of the Federal Reserve System**

Year	Number of reports with open recommendations	Number of open recommendations
2016	1	1
2017	2	2
2018	1	1
2019	1	2
2022	4	8
2023	4	24
2024ª	2	2

# Table C-1. Reports to the Board Issued Before the Reporting Period With Open Recommendations, by Calendar Year

Note: For any years not listed, all recommendations were closed before the start of the reporting period.

<sup>a</sup> Through September 30, 2024.

#### 2016-IT-B-013

November 10, 2016

#### Total number of recommendations: 9 Recommendations open: 1

1. Work with the chief operating officer to perform a risk assessment to determine which aspects of an insider threat program are applicable to other types of sensitive Board information and develop and implement an agencywide insider threat strategy for sensitive but unclassified Board information, as appropriate.

### <u>The Board Can Enhance Its Cybersecurity Supervision Approach in the</u> <u>Areas of Third-Party Service Provider Oversight, Resource Management,</u> <u>and Information Sharing</u>

#### 2017-IT-B-009

#### Total number of recommendations: 8 Recommendations open: 1

1. Reiterate to financial institutions the requirement to notify their primary regulator of the existence of new service relationships, and develop a process to periodically reconcile and refresh the listing of multiregional data processing servicer firms and technology service providers.

#### 2017 Audit of the Board's Information Security Program

#### 2017-IT-B-018

#### Total number of recommendations: 9 Recommendations open: 1

8. Develop, implement, and regularly update an information security continuous monitoring strategy that includes performance measures to gauge the effectiveness of related processes and provides agencywide security status.

#### 2018 Audit of the Board's Information Security Program

#### 2018-IT-B-017

#### Total number of recommendations: 6 Recommendations open: 1

6. Develop and implement a process to assess the knowledge, skills, and abilities of Board staff with significant security responsibilities and establish plans to close identified gaps.

## April 17, 2017

October 31, 2018

**October 31, 2017** 

#### 2019-IT-B-016

#### October 31, 2019

#### Total number of recommendations: 6 Recommendations open: 2

5. Work with the System to ensure that the data loss protection replacement solution

- a. functions consistently across the Board's technology platforms.
- b. supports rulesets that limit the exfiltration weaknesses we identified, to the extent practicable.
- 6. Develop and implement a Boardwide process to incorporate the review of data loss protection logs into employee and contractor offboarding processes to identify any potential unauthorized data exfiltrations or access.

### The Board Can Strengthen Inventory and Cybersecurity Life Cycle Processes for Cloud Systems

#### 2022-IT-B-006

March 23, 2022

#### Total number of recommendations: 3 Recommendations open: 3

- 1. Ensure that the Cloud Resource Center's inventory of cloud projects in the configuration and production phases is comprehensive and periodically maintained.
- 2. Develop and implement a process to ensure that the Federal Risk and Authorization Management Program Project Management Office has an accurate inventory of Federal Risk and Authorization Management Program–approved cloud systems used by the Board.
- 3. Ensure that the Board's information security continuous monitoring standards and associated procedures provide consistent guidance on continuous monitoring frequencies and associated documentation review requirements for cloud service providers.

### <u>Testing Results for the Board's Software and License Asset Management</u> <u>Processes (nonpublic)</u>

#### 2022-IT-B-008R

June 15, 2022

Total number of recommendations: 1 Recommendations open: 1

The open recommendation relates to strengthening software asset management processes.

#### 2022-IT-B-013

**September 30, 2022** 

#### Total number of recommendations: 1 Recommendations open: 1

1. Ensure that risks are appropriately categorized and prioritized on the Board's cybersecurity risk register.

### The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals

#### 2022-SR-B-017

#### **December 7, 2022**

#### Total number of recommendations: 9 Recommendations open: 3

- 4. Update, in consultation with the Board of Governors, the director of the Division of Financial Stability, and the general counsel, the delegations of authority related to the stress testing program to clarify how actions should be delegated when there is no vice chair for supervision or Committee on Supervision and Regulation (CSR) chair.
- 5. Update, in consultation with the Board of Governors, the director of the Division of Supervision and Regulation, and the general counsel, the CSR charter to state how the committee should operate in the absence of a vice chair for supervision and a CSR chair, including specifying who is responsible for setting the strategic direction and priorities of the committee and developing committee meeting agendas.
- 6. Update, in consultation with the Board of Governors, the *Board Organization and Procedures* policy to state who will fill the role of oversight governor for the Division of Supervision and Regulation if the Board chair has not appointed one.

# The Board Can Further Enhance the Design and Effectiveness of the FOMC's Investment and Trading Rules

#### 2023-SR-B-006

April 26, 2023

#### Total number of recommendations: 6 Recommendations open: 3

3. Develop a plan for how to further enhance uniformity across the System's financial disclosure report review process, including considering additional controls and guidance.

- 5. Develop a process to verify the accuracy of the information on financial disclosure reports for individuals subject to the *Investment and Trading Policy for FOMC* [Federal Open Market Committee] *Officials*. As part of this effort,
  - a. require covered individuals to provide brokerage statements to their respective ethics officer for all accounts with holdings and transactions reported on their annual financial disclosure report.
  - b. update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness.
- 6. Develop an approach to verify the accuracy of the information on financial disclosure reports for individuals who have access to confidential Class I FOMC information and are not covered by the *Investment and Trading Policy for FOMC Officials*. As part of this effort,
  - a. determine the method and frequency for checking the accuracy and completeness of financial disclosure reports against brokerage statements, for example, by conducting periodic random sampling or full reviews.
  - b. update financial disclosure review guidance to include the use of employee-provided brokerage statements to check annual financial disclosure reports for accuracy and completeness and describe the method and frequency of this review.
  - c. assess the costs and benefits of establishing a system to automatically detect prohibited assets or failure to preclear trades using employee-provided brokerage statements and determine whether to implement such an automated approach.

#### **Material Loss Review of Silicon Valley Bank**

#### 2023-SR-B-013

#### Total number of recommendations: 7 Recommendations open: 5

- Assess the current Regional Banking Organization (RBO) supervision framework and determine whether adjustments should be made based on a supervised institution's size and complexity, such as unique or concentrated business models or rapid growth. Based on the determination, develop and implement training for RBO Supervision staff that emphasizes the need for varying approaches based on an institution's size, complexity, and business model.
- 2. Assess whether the BETR models are appropriate for RBOs, specifically those that are large or complex or that present unique risk factors such as concentrated business models or rapid growth, and determine whether a different approach to determining the scope and resources for examinations is needed.

#### September 25, 2023

- 3. Assess the current RBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.
- 4. Develop an approach for transitioning institutions from the RBO portfolio to the Large and Foreign Banking Organization (LFBO) portfolio and determine how best to involve LFBO Supervision earlier, such as through joint reviews with RBO Supervision, and how to more timely form a dedicated supervisory team. Based on the approach developed, finalize and issue formal guidance on transitioning RBOs to the LFBO portfolio that includes steps and a timeline for forming a dedicated supervisory team, approaches for the two Supervision sections to collaborate, and a list of potential RBO and LFBO joint reviews to conduct to better prepare an institution for the transition.
- 5. Reiterate to examination teams the purpose of the Risk and Surveillance Sections' reports and the need to closely reflect on their contents to help inform their ongoing supervisory activities.

#### **Review of the Supervision of Silvergate Bank (nonpublic)**

#### 2023-SR-B-014R

#### September 27, 2023

#### Total number of recommendations: 12 Recommendations open: 9

- 1. Update Supervision and Regulation Letter 02-9 to provide additional details on what may constitute a change in the general character of a state member bank's business, including providing examiners with a variety of examples or scenarios that could help them to determine when a bank needs to file an application and receive approval from the Board under Regulation H.
- 2. Discuss and reinforce the updates made to Supervision and Regulation Letter 02-9 in response to recommendation 1 with Reserve Banks through training.
- 4. Develop a plan to ensure that the Division of Supervision and Regulation's oversight activities assess compliance with the guidance developed in response to recommendation 3.
- 5. Develop and implement a plan for instructing Community Banking Organization (CBO) and RBO examiners to take a forward-looking view of a bank's risk profile and the possible and plausible outcomes of that risk profile when assigning CAMELS composite and component ratings, including
  - a. guidance for examiners on effectively balancing a bank's financial results and condition with its risk profile when assigning CAMELS composite and component ratings, particularly for banks with concentrated business models susceptible to boom and bust cycles.
  - b. guidance for examiners on circumstances that warrant a heightened sense of urgency to initiate CAMELS composite or component ratings downgrades, identify when a bank is exhibiting unsafe or unsound banking practices, or designate a bank as being in "troubled condition."

- c. required training for examiners that reinforces the guidance developed as part of this recommendation, including scenarios that exemplify the challenges of assigning CAMELS composite and component ratings and the implications of potentially deferring composite or component ratings downgrades when a disconnect has developed between a bank's financial condition and results and its escalating risk profile.
- 6. Develop guidance for examiners on preparing firms to transition from the CBO portfolio to the RBO portfolio that includes references to updated and relevant guidance applicable to firms that cross the \$10 billion asset size threshold.
- 7. Develop a plan to minimize the time necessary to establish a new RBO central point of contact and supervisory team for CBOs approaching the \$10 billion asset size threshold.
- 8. Develop guidance for examiners on supervising firms approaching the \$10 billion total assets threshold that describes
  - a. how to prepare for the transition, including the roles and responsibilities of the Board, the CBO team, and the RBO team, and the expectations for sharing relevant information between the portfolio teams.
  - b. procedures for developing and updating the supervisory plan before, during, and after the transition.
- 11. Develop guidance for examiners on supervising banks projecting or experiencing rapid growth. The guidance should include
  - a. parameters for identifying significant, rapid growth that may hinder a bank's ability to operate in a safe and sound manner and parameters for identifying when a bank is growing in an unchecked manner based on conditions in the market that have surpassed management's capability to effectively manage it.
  - b. actions examiners should take as a bank projects or experiences such growth or in response to sustained, unchecked growth, including any expected escalations.
  - c. actions examiners should take when supervising banks susceptible to volatile market conditions.
- 12. Develop guidance for banks projecting or experiencing significant, rapid growth that includes expectations for ensuring that they have requisite staff and risk management capabilities and effective key control functions.

#### 2023-IT-B-015

#### **September 29, 2023**

#### Total number of recommendations: 7 Recommendations open: 7

- 1. Prioritize the definition and incorporation of a cybersecurity risk tolerance into the agency's cybersecurity policies, procedures, and processes, as appropriate.
- 2. Ensure all required attributes are consistently documented within the agency's cybersecurity risk register.
- 3. Document and implement a process to consistently inventory the Board's web applications, including its public-facing websites.
- 4. Document and implement a process to consistently inventory and prioritize the Board's third-party systems, including the identification of subcontractors.
- 5. Enforce the agency's *iOS Update and Device Inactivity Policy* to ensure that agency services are denied to mobile devices that are out of compliance.
- 6. Develop, document, and implement a process to review and update the Board's privacy impact assessments.
- 7. Ensure that the process to update privacy impact assessments is adequately resourced for effective implementation.

#### <u>Results of Security Control Testing of the Board's Embargo Application</u> (nonpublic)

#### 2024-IT-B-011R

#### April 10, 2024

**Total number of recommendations: 1** 

#### **Recommendations open: 1**

The open recommendation relates to strengthening access controls.

### FRB Minneapolis Followed Its Paycheck Protection Program Liquidity Facility Collateral Risk Management Processes and Can Enhance Monitoring and Collection Processes

#### 2024-FMIC-B-018

**September 23, 2024** 

Total number of recommendations: 1

#### **Recommendations open: 1**

1. Develop and implement formal procedures that monitor nondepository institution participants and address at-risk and unresolved collateral.

## **Consumer Financial Protection Bureau**

# Table C-2. Reports to the CFPB Issued Before the Reporting Period With Open Recommendations, by Calendar Year

Year	Number of reports with open recommendations	Number of open recommendations
2018	1	1
2020	1	1
2022	1	1
2023	1	1
2024ª	2	6

Note: For any years not listed, all recommendations were closed before the start of the reporting period.

<sup>a</sup> Through September 30, 2024.

#### 2018 Audit of the Bureau's Information Security Program

#### 2018-IT-C-018

#### October 31, 2018

#### Total number of recommendations: 4 Recommendations open: 1

3. Determine whether established processes and procedures for management of user-access agreements and rules-of-behavior forms for privileged users are effective and adequately resourced and make changes as needed.

#### **Technical Testing Results for the Bureau's Legal Enclave (nonpublic)**

#### 2020-IT-C-017R

July 22, 2020

Total number of recommendations: 4 Recommendations open: 1

The open recommendation relates to strengthening configuration management.

#### 2022-IT-C-014

**September 30, 2022** 

Total number of recommendations: 6 Recommendations open: 1

4. Ensure that an enterprisewide software inventory is conducted and maintained.

#### 2023 Audit of the CFPB's Information Security Program

#### 2023-IT-C-016

**September 29, 2023** 

Total number of recommendations: 1 Recommendations open: 1

1. Maintain a comprehensive schedule for testing current contingency plans, documenting test procedures, and maintaining relevant updates to the contingency plan.

### Results of Scoping of the Evaluation of the CFPB's Healthcare Benefits Eligibility Processes

#### 2024-MO-C-010

March 20, 2024

#### Total number of recommendations: 4 Recommendations open: 3

- 1. Ensure that the Office of Human Capital continues to monitor dependent eligibility on a biweekly basis and corrects discovered discrepancies.
- 2. Ensure that the Office of Human Capital conducts a comprehensive annual review of the control activities for administering the agency's vision and dental programs to ensure that they are operating effectively.
- 4. Develop and periodically provide tailored training for employees who administer the agency's vision and dental programs.

### The CFPB Can Enhance Certain Aspects of Its Examiner Commissioning Program

#### 2024-SR-C-013

May 15, 2024

#### Total number of recommendations: 3 Recommendations open: 3

- 1. Issue guidance that clearly defines responsibilities and outlines expectations for those serving in Examiner Commissioning Program (ECP) support roles, including
  - a. mentors on their support during an examiner's acting examiner in charge (EIC) assignment.
  - b. regional training leads on their support during rotations.
  - c. field managers on providing support, identifying examinations, and selecting acting EIC assignments for examiners pursuing commissioning.
- 2. Develop a standardized process for Supervision Learning and Development and the regions to collaborate when providing supplemental ECP support to examiners who are preparing for the ECP.
- 3. Assess the current EIC case study assessment (CSA) feedback process and determine how to enhance the feedback provided to examiners while safeguarding the content of the EIC CSA. Based on the results of the assessment, update guidance to clearly outline expectations for delivering specific, actionable EIC CSA feedback and develop and implement training on those expectations.

## **Abbreviations**

BETR	Bank Exams Tailored to Risk
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
СВО	Community Banking Organization
CI	Criminal Investigation
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CSA	case study assessment
CSR	Committee on Supervision and Regulation
DIF	Deposit Insurance Fund
DLP	data loss prevention
DOJ	U.S. Department of Justice
ECP	Examiner Commissioning Program
EIC	examiner in charge
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FISMA	Federal Information Security Modernization Act of 2014
FOMC	Federal Open Market Committee
FRB Richmond	Federal Reserve Bank of Richmond
IG	inspector general
IRS	Internal Revenue Service
LFBO	Large and Foreign Banking Organization
MSLP	Main Street Lending Program
OLS	Office of Legal Services
PIIA	Payment Integrity Information Act of 2019
РРР	Paycheck Protection Program
PPPLF	Paycheck Protection Program Liquidity Facility
PRAC	Pandemic Response Accountability Committee

**RBO**Regional Banking Organization**SBA**U.S. Small Business Administration

#### **Office of Inspector General**

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

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