Office of Inspector General

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

Semiannual Report to Congress

OIG

April 1, 2024–September 30, 2024

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Message From the Inspector General



Over the past 6 months, information security continued to be a critically important concern, not just for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau but also for the federal government and the American people. As part of the Council of the Inspectors General on Integrity and Efficiency's Technology Committee, we led a team of six participating offices of inspector general to report on information security program trends across the government. In our report, issued in May, we found that federal agencies have

strengthened the maturity of their information security programs on average in recent years, but that more actions are needed in key areas—supply chain risk management, cybersecurity risk management, and configuration management—to ensure that agencies' information security programs can deal with cybersecurity threats effectively.

Much of our oversight work this reporting period relates to information technology (IT) and information security. We performed security control testing of the Board's web-based embargo application, which allows authorized members of the media to access documents that are not yet posted to the Board's public website. Overall, the security controls we tested were effective, but the Board can strengthen access and configuration management controls. In separate assessments, we analyzed the Board's and the CFPB's purchase card programs and found, for each agency, that the risk of illegal, improper, or erroneous use of purchase cards is *low*. Finally, we conducted a forensic evaluation of the CFPB's procurement process as it relates to labor hours billed to the agency and found that the process is operating effectively overall. However, because of missing timesheets, potentially incorrect labor rates, unsupported labor hours, and undocumented overtime rates in the labor-rate schedule, \$2.3 million of the \$56.4 million of labor hours we evaluated could not be reconciled with supporting documentation.

Remaining agile and attuned to technological developments and emerging risks continues to be a priority in our oversight of the Board and the CFPB. We are expanding our IT audits and data analytics teams, and we continue to actively research artificial intelligence, machine learning, and other emerging technologies to better understand how they might affect our work and that of the Board and the CFPB.

We continue to evaluate the applicability of such emerging technologies to our mission. We are also focused on expanding the data literacy of our workforce—empowering staff to effectively interpret, analyze, and communicate data insights. We use a risk-based approach in evaluating emerging technologies and promoting data literacy. This approach is grounded in an understanding of the need to manage and protect OIG data while mitigating security, privacy, and compliance risks.

Ensuring a diverse, equitable, and inclusive workforce is another top priority for our office and for the agencies we oversee. We examined the Board's hiring efforts over several years and found that while the Board follows certain leading practices to cultivate workforce diversity, its applicant pool becomes less diverse in the latter stages of the hiring cycle. We recommend that the Board issue comprehensive guidance and policies that promote additional leading practices throughout the agency, such as anonymizing résumés and requiring training for hiring managers. We are also beginning an evaluation of the hiring practices of the Board's four economics divisions, which have a separate recruiting and hiring process for economists and research assistants, and their effect on workforce diversity.

Ethics and potential conflicts of interest continued to be an area of heightened interest. We recently completed our investigation into the 2017–2021 trading activities of a senior Federal Reserve Bank official and found that the official violated Federal Open Market Committee (FOMC) rules and Reserve Bank policies governing blackout periods, financial disclosures, prohibited holdings, and preclearance requirements. We did not find any evidence that trades were based on confidential FOMC information, and the official did not have financial conflicts of interests; however, the official created an "appearance of acting on confidential FOMC information" under the FOMC blackout rule and an "appearance of a conflict of interest" that could cause a reasonable person to question the official's impartiality under the Reserve Bank's code of conduct.

We issued three pandemic-related reports in this reporting period. The Paycheck Protection Program Liquidity Facility (PPPLF) advanced about \$200 billion to lenders to keep credit flowing to small businesses during the pandemic. We found that the Federal Reserve Bank of Minneapolis, which administers the PPPLF, followed its risk management processes and can enhance monitoring and collection processes. We also audited the CFPB's consumer response operations, which saw an increase in consumer complaints during the pandemic. We found that the CFPB effectively monitors consumer complaints but can enhance certain processes. Finally, we contracted with an independent firm to test selected security controls for the CFPB's Consumer Resource Center Mosaic system, a cloud-based system used for the agency's consumer complaint program; no areas for improvement were identified.

Our Office of Investigations continues to investigate numerous cases of fraud related to the pandemic's emergency lending programs, ensuring that those who defrauded such programs are brought to justice. In May, for instance, a former deputy sheriff in the Broward County Sheriff's Office was sentenced to federal prison for participating in a COVID-19 relief fraud scheme; in August, a Broward County Deputy Sheriff and SWAT team member was sentenced to prison for her role in the scheme; and in September, a Nevada man was convicted of defrauding three banks of more than \$11.2 million in pandemic relief funds.

Bank fraud and bank failures also remain areas of attention. While small bank failures may not threaten the resilience of the nation's banking system, such failures nonetheless cause profound and long-lasting effects on the communities these banks serve. In August, for example, the former president of Ericson State Bank was sentenced to 18 months in prison after committing fraud that led to the failure of the Nebraska bank. In another case, the former chief executive officer of Heartland Tri-State Bank in Kansas was sentenced to 293 months (over 24 years) in prison for embezzling millions of dollars as part of an online cryptocurrency pig butchering scheme, causing the bank to fail. We are closely attuned to growing concerns about pig butchering schemes, in which scammers gain the trust of victims and lure them into investing more and more money into seemingly sound investments, often involving cryptocurrency. We will continue to monitor for such schemes and will provide audit and investigative resources when necessary.

Overall, our Office of Investigations closed 23 investigations and resolved 329 hotline complaints. Our work resulted in 8 referrals for criminal prosecution; 21 arrests; 6 indictments; 16 criminal informations; 21 convictions; and over \$200 million in civil judgments, forfeiture, criminal fines, restitution, and special assessments.

I am deeply grateful for the OIG staff and continue to be impressed by their exceptional skill; relentless dedication; and steadfast commitment to our mission, vision, and values. Our work would not be possible without their talent, expertise, and determination, and I look forward to continuing to work together to improve the programs and operations of the Board and the CFPB and to prevent and detect fraud, waste, and abuse.

Sincerely,

Mark Binlet

Mark Bialek Inspector General October 31, 2024

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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 Embargo Application

The Board can strengthen access and configuration management controls for its embargo application, which allows authorized members of the media to access documents that are not yet posted to the Board's public website.

The CFPB's Examiner Commissioning Program

The CFPB can make its commissioning program more consistent in terms of opportunities, mentoring, and other support for examiners; provide examiners specific, actionable feedback; and formalize an approach for diversifying assessment panels.

Federal Information Security Program Trends Across the Federal Government

Only 60 percent of federal government agencies have an effective information security program. More actions are needed to ensure agencies' information security programs can deal with cybersecurity threats effectively.

The CFPB's Surplus Civil Penalty Funds Allocation and Contractor Payments to Victims

The CFPB's process for allocating Civil Penalty Fund (CPF) monies prioritizes victim compensation over consumer education and financial literacy programs, and the CFPB provided effective oversight of contractors, ensuring that eligible victims received accurate payments.

The CFPB's Contractor Overbilling

Of the \$56.4 million of labor hour costs we evaluated, \$2.3 million could not be reconciled with supporting documentation.

Paycheck Protection Program Liquidity Facility Administration

The Federal Reserve Bank of Minneapolis (FRB Minneapolis), which administers the Paycheck Protection Program Liquidity Facility (PPPLF), followed its risk management process for at-risk, unresolved, and potentially fraudulent collateral used to back PPPLF loans, but measures to address nonpayment were not fully developed.

Diversity, Equity, and Inclusion in the Board's Hiring Process

The Board's applicant pool became less diverse in the latter stages of the hiring cycle, but the agency can mitigate this challenge by issuing guidance and policies to promote leading hiring practices.



Investigation Into Federal Reserve Bank of Atlanta President's Trading Activity

We investigated the 2017–2021 trading, investment, and disclosure activities of Federal Reserve Bank of Atlanta (FRB Atlanta) President Raphael Bostic. Dr. Bostic violated Federal Open Market Committee (FOMC) rules and Federal Reserve Bank policies governing blackout periods, financial disclosures, prohibited holdings, and preclearance requirements. Dr. Bostic also created an "appearance of acting on confidential FOMC information" under the FOMC blackout rule and an "appearance of a conflict of interest" that could cause a reasonable person to question his impartiality under FRB Atlanta's code of conduct.

Former Chief Executive Officer of Failed Kansas Bank Sentenced to Prison for Embezzling \$47 Million

Shan Hanes was sentenced to over 24 years in prison for embezzling \$47.1 million from Heartland Tri-State Bank as its chief executive officer (CEO). Hanes embezzled the money to enrich himself in a pig butchering

cryptocurrency scheme in which would-be investors were conned into depositing money into fake accounts controlled by scammers. The embezzlement caused Heartland, a state member bank serving rural Kansas, to fail, with the Federal Deposit Insurance Corporation (FDIC) absorbing the \$47.1 million loss.

Former Bank Vice President and Branch Manager Convicted for Paycheck Protection Program Fraud in New York

Anuli Okeke, former vice president and manager of a New York branch of Popular Bank, was convicted by jury of conspiracy to commit bank and wire fraud, wire fraud, bank fraud, and money laundering conspiracy. Okeke led a scheme to fraudulently obtain millions of dollars from the Economic Injury Disaster Loan (EIDL) program and the Paycheck Protection Program (PPP) during the height of the COVID-19 pandemic. She faces up to 30 years in prison. Seven other coconspirators previously pleaded guilty to wire and bank fraud conspiracy in connection with the defendant's scheme.

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 Reserve Bank and of the Board. The Board performs the accounting function for the Federal Financial Institutions Examination Council (FFIEC), and we oversee the annual financial statement audits of the Board and of the FFIEC.¹ 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 CPF 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.² 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.

^{1.} 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 FDIC, 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 FDIC, 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 declared an end to the pandemic, 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 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.

We are closely coordinating with the U.S. Government Accountability Office; PRAC, which coordinates IG community oversight of the federal government's COVID-19 pandemic response efforts; the Special Inspector General for Pandemic Recovery; the U.S. Small Business Administration (SBA) Office of Inspector General; the U.S. Department of Justice (DOJ); and other OIGs to ensure robust oversight of the Board's pandemic response activities, and we are overseeing the CFPB's pandemic response activities through our own reviews, to efficiently deploy resources where they are most needed.

Inspector General Bialek continues to serve on PRAC, and he serves as the vice chair of the PRAC Investigations Subcommittee.

Status Updates for Pandemic-Related 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. Our monitoring effort included these activities.

In this reporting period, we issued three reports that were initiated based on our monitoring effort.

Evaluation of the Federal Reserve System's PPPLF

The Board established the PPPLF to extend credit to financial institutions that originate loans through the SBA's guaranteed PPP, taking the PPP loans as collateral. The PPPLF, managed by FRB Minneapolis and operated out of the 12 Reserve Banks, distributed billions of dollars to eligible lenders. We assessed the effectiveness of the System's processes for (1) identifying and managing risk and unresolved loans, (2) addressing nonpayment, and (3) detecting and mitigating fraudulent collateral; see the <u>summary</u> below.

Audit of the CFPB's Consumer Response Operations

The CFPB uses consumer complaints to help inform the agency's supervision, enforcement, and policymaking activities. With the increase in consumer complaints it received during the COVID-19 pandemic, the Office of Consumer Response faced an operational risk related to its effectiveness in reviewing and monitoring consumer complaints. We assessed the effectiveness of the CFPB's processes for reviewing and monitoring company responses to consumer complaints; see the <u>summary</u> below.

Security Control Review of the CFPB's Consumer Response System

FISMA requires us to perform an annual independent evaluation of the CFPB's information security program, including testing the effectiveness of controls for selected systems. As part of our 2023 FISMA audit, we contracted with an independent accounting firm to test the effectiveness of selected security controls for the CFPB's consumer response system. This system is used by the CFPB to collect, respond to, and refer consumer inquiries and complaints concerning consumer financial products and services. We issued a separate, restricted memorandum on the results of the testing of the consumer response system; see the <u>summary</u> below.

Pandemic-Related 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 OIGs. Since the start of the pandemic, our work has resulted in 164 full investigations; 135 arrests; 118 convictions; and nearly \$363 million in criminal fines, restitution, and special assessments. During this reporting period, we opened 3 full investigations; made 15 arrests; had 8 convictions; and recovered around \$149 million in criminal fines, restitution, and special assessments. Our recent investigative results and recoveries are described in the <u>Investigations</u> 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

Results of Security Control Testing of the Board's Embargo Application2024-IT-B-011RApril 10, 2024

The Board's web-based embargo application allows authorized members of the media to access documents that are not yet posted to the Board's public website. To meet FISMA requirements, we reviewed selected information security controls for the application.

Overall, the security controls we tested for the embargo application were effective. For example, the Board ensured that privileged access was provisioned on a need-to-know basis. In addition, required embargo application events were logged and retained in accordance with Board requirements. However, the Board can strengthen access and configuration management controls for the embargo application. Our report includes one recommendation and one matter for management consideration. The Board concurred with our recommendation. Given the sensitivity of the information in our review, our full report is restricted.

<u>Calendar Years 2022 and 2023 Risk Assessment of the Board's Purchase</u> <u>Card Program</u>

September 4, 2024

Board purchase cards were used for about \$9.6 million in total program spending in 2022–2023. We analyzed the risks of illegal, improper, or erroneous purchases and payments.

The results of our assessment show that the risk of illegal, improper, or erroneous use in the Board's purchase card program is *low*. A risk level of *low* means that illegal, improper, or erroneous use is unlikely to occur and that such an occurrence would be expected to have a minimal effect on current operations and long-term objectives. Nonetheless, the Board's Purchase Card section should continue to take appropriate actions to ensure proper oversight of its program.

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

The PPPLF advanced about \$200 billion to lenders to keep credit flowing to small businesses during the COVID-19 pandemic. Just over \$3 billion remained outstanding as of March 31, 2024. We assessed the effectiveness of the PPPLF's processes for (1) identifying and managing at-risk and unresolved collateral, (2) addressing nonpayment, and (3) detecting and mitigating fraudulent collateral.

FRB Minneapolis, which administers the PPPLF, followed its risk management process for at-risk, unresolved, and potentially fraudulent collateral used to back PPPLF loans. However, the PPPLF did not fully develop and document measures to address nonpayment. Also, we noted measures to reduce financial risk if the Board implements a similar liquidity facility in the future.

Our report contains one recommendation to help FRB Minneapolis strengthen its processes related to repayment of outstanding advances. FRB Minneapolis concurred with our recommendation.

The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce

2024-MO-C-017

September 25, 2024

A diverse workforce, with varied experiences and perspectives, helps the Board meet its mission of promoting a strong economy for the American people. We assessed the extent to which the Board's hiring policies, procedures, and practices affect workforce diversity.

The Board follows certain leading practices to cultivate workforce diversity. For example, it uses specialized hiring platforms and tracks demographic data throughout the hiring cycle. However, the Board's applicant pool becomes less diverse in the latter stages of the hiring cycle. To mitigate this challenge, the Board can issue comprehensive guidance and policies that promote additional leading practices, such as anonymizing résumés and requiring training for hiring managers, throughout the agency.

Our report contains seven recommendations designed to strengthen the Board's hiring process and practices related to workforce diversity. The Board concurred with our recommendations.

Consumer Financial Protection Bureau

Independent Accountants' Report on the CFPB's Fiscal Year 2023 Compliance With the Payment Integrity Information Act of 2019 2024-FMIC-C-012

May 1, 2024

The PIIA requires agency heads to periodically review and identify all programs and activities that may be susceptible to significant improper payments. In addition, each fiscal year the IG of each agency must determine and report on whether the agency complies with the act. We contracted with an independent accounting firm to audit the CFPB's compliance with the PIIA for fiscal year 2023. We reviewed and monitored the work of the contractor to ensure compliance with the contract and *Government Auditing Standards*. The contractor determined that the CFPB complied with the two applicable requirements of the PIIA for fiscal year 2023 for the CPF.

Our report does not contain recommendations.

The CFPB Can Enhance Certain Aspects of Its Examiner Commissioning Program

2024-SR-C-013

May 15, 2024

CFPB examiners assess supervised institutions' compliance with federal consumer financial laws. Examiners must successfully complete the Examiner Commissioning Program to receive their commissions, which signifies technical expertise in their duties. We assessed the CFPB's approach to examiner commissioning.

We found that the CFPB can make its commissioning program more consistent in terms of opportunities, mentoring, and other support for examiners. It can also provide examiners specific, actionable feedback following a key component of the commissioning program. Finally, the CFPB should consider formalizing an approach for diversifying assessment panels and periodically collect qualitative information to alleviate concerns about the program's fairness.

Our report includes three recommendations to enhance the CFPB's commissioning program. The CFPB concurred with our recommendations.

The CFPB Effectively Designed a Process to Allocate Surplus Civil Penalty Funds and Monitored Contractor Payments to Victims

2024-FMIC-C-014

June 10, 2024

The CFPB maintains the CPF to compensate people harmed by companies that violate consumer financial protection laws and allows the CFPB, under certain circumstances, to use excess CPF funds for consumer education and financial literacy programs. As of September 2023, the CPF had collected \$3.4 billion and held a balance of \$1.9 billion. We assessed (1) the process design for allocating CPF funds for the purpose of consumer education and financial literacy programs and (2) the effectiveness of processes for overseeing the contractors distributing payments to victims.

The CFPB's process for allocating CPF funds prioritizes victim compensation over consumer education and financial literacy programs. Prioritizing victim compensation, including maintaining a reserve to compensate future victims, and using operating funds for consumer education programs allows the agency to pay all eligible victims and continue to fund consumer education initiatives. In addition, the CFPB provided effective oversight of contractors, ensuring that eligible victims received accurate payments. We identified \$11 million in unspent funds that was allocated to consumer education and financial literacy programs; as a result, during our audit the CFPB deallocated those funds and made them available for future victim compensation.

Our report does not contain recommendations.

<u>Results of the Security Controls Testing of the CFPB's Consumer Resource</u> <u>Center Mosaic System</u>

2024-IT-C-015R

The CFPB's Consumer Resource Center Mosaic system is a cloud-based system used for the agency's consumer complaint program. As part of our 2023 audit of the CFPB's information security program, we contracted with an independent firm to test selected security controls for the system.

For the selected security controls tested, no areas for improvement were identified; therefore, this report does not contain recommendations. Given the sensitivity of the information in our review, our full report is restricted.

<u>The CFPB Effectively Monitors Consumer Complaints but Can Enhance</u> <u>Certain Processes</u>

2024-MO-C-016

The CFPB collects, investigates, and monitors consumer complaints about financial products and services. The number of these complaints has grown significantly in recent years, reaching nearly 1.3 million in 2022. We assessed the effectiveness of the Office of Consumer Response's processes for reviewing and monitoring the timeliness, accuracy, and completeness of company responses to consumer complaints in accordance with its established directives and procedures.

The CFPB uses a risk-based approach to select companies for review and prioritizes companies with the most complaints. The agency has followed its processes for conducting reviews, but we found incomplete documentation in limited cases. Further, a pilot process to provide companies with reports about their complaint handling and response performance lacked key components: measurable objectives, a completion date, formal written guidance, and an approach to evaluate the pilot.

Our report contains three recommendations to enhance the CFPB's processes for issuing companyspecific reports on response performance. The CFPB concurred with our recommendations.

Fiscal Years 2022 and 2023 Risk Assessment of the CFPB's Purchase Card Program

September 4, 2024

CFPB purchase cards were used for about \$4.8 million in total program spending in fiscal years 2022 and 2023. We analyzed the risks of illegal, improper, or erroneous purchases and payments.

June 12, 2024

June 24, 2024

The results of our assessment show that the risk of illegal, improper, or erroneous use in the CFPB's purchase card program is *low*. A risk level of *low* means that illegal, improper, or erroneous use is unlikely to occur and that such an occurrence would be expected to have a minimal effect on current operations and long-term objectives. Nonetheless, the CFPB's Office of Procurement should continue to take appropriate actions to ensure proper oversight of its program.

Forensic Evaluation of Overbilled Labor Hours on CFPB Contracts

September 11, 2024

We conducted a forensic evaluation of the CFPB's procurement process for labor hours billed to the agency. The results of our evaluation show that the process is operating effectively overall. However, we made several observations regarding missing timesheets, potentially incorrect labor rates, unsupported labor hours, and undocumented overtime rates in the labor-rate schedule.³ Of the \$56.4 million of labor hours we evaluated, \$2.3 million could not be reconciled with supporting documentation; we report this figure in <u>table A-5</u>. Our observations do not suggest that overbilling occurred in this amount but serve to highlight areas of inconsistent documentation that, if addressed, will help the agency to improve its procurement process.

Our report does not contain recommendations.

^{3.} Under the terms of the contacts, the agency contracting officer's representative was not required to review the timesheets to approve their payment.

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 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 PPP loans guaranteed by the SBA as collateral. In addition, our office also conducted investigations in support of our membership on PRAC. Our office is also part of DOJ's COVID-19 Fraud Enforcement Task Force.

The following are examples of our investigative activity made public during this reporting period.

<u>Report of Investigation on the Closing of 23-0020-I Federal Reserve Bank of</u> <u>Atlanta President's Trading Activity</u>

On October 14, 2022, Board Chair Jerome Powell requested that we review the extent to which the 2017–2021 trading, investment, and disclosure activities of FRB Atlanta President Raphael Bostic violated the law or Federal Reserve policies; whether President Bostic's trading, investment, and disclosure activities warrant further investigation by other authorities; and any other related matters deemed appropriate.

We found that Dr. Bostic violated FOMC rules and Reserve Bank policies governing blackout periods, financial disclosures, prohibited holdings, and preclearance requirements. We did not find any evidence that Dr. Bostic's trades were based on confidential FOMC information, and he did not have financial conflicts of interests. We independently verified that Dr. Bostic relied on third-party managed accounts and that neither he nor his personal investment advisors had the ability to direct specific trades. Nonetheless, Dr. Bostic was responsible for ensuring that all trades and investments made on his behalf complied with all applicable rules.

Based on the totality of these findings, Dr. Bostic also created an "appearance of acting on confidential FOMC information" under the FOMC blackout rule and an "appearance of a conflict of interest" that could cause a reasonable person to question his impartiality under FRB Atlanta's code of conduct. We referred the matter to the Board for any further action it deems appropriate.

Pennsylvania Resident Sentenced to Prison for \$4.8 Million EIDL and PPP Fraud

Darryl Duanne Young, of Pennsylvania, was sentenced to 78 months in prison for his role in a scheme to fraudulently obtain over \$4.8 million in EIDL and PPP loans for himself and others. Young pleaded guilty to one count of conspiracy to commit bank fraud and one count of money laundering. He was also sentenced to 3 years of supervised release and ordered to pay \$5.28 million in restitution.

According to court documents, Young submitted and directed others to submit fraudulent EIDL and PPP loan applications, supported by falsified tax documents and bank statements, to a victim lender. He received over \$230,000 in PPP loans for businesses he controlled and received a percentage of loan proceeds for his help in submitting fraudulent applications on behalf of others.

We investigated this case with the FDIC OIG, the Federal Housing Finance Agency (FHFA) OIG, Homeland Security Investigations, the Internal Revenue Service (IRS) Criminal Information (CI), the U.S. Social Security Administration (SSA) OIG, and the U.S. Postal Inspection Service. The U.S. Attorney's Office for the District of New Jersey prosecuted.

Maryland Resident Pleaded Guilty to Taking Bribes to Steer Government Contracts

Kyana Washington, a former federal government contracting specialist, pleaded guilty to conspiracy to commit bribery and honest services wire fraud. She faces up to 5 years in prison.

According to court documents, Washington worked for a company contracted with the U.S. Government Publishing Office (GPO). She met multiple times with an individual whose business helps affiliate companies secure government contracts. Washington offered to help steer GPO contracts to the individual's affiliate companies in exchange for 20 percent of the contracts' value. She and the individual agreed to disguise the bribe payments through Washington's daughter. Washington showed the individual confidential or nonpublic information about GPO contract opportunities. After the individual provided her with three company names, she prepared a memorandum to GPO stating that those were the only companies to bid on a 5-year, \$1 million contract and recommended awarding the contract to one of the companies. Washington restructured the contract to require the approval of only her supervisor rather than the additional approvals that would have been required under the original contract. The contract was awarded to the company Washington recommended. The company paid the individual Washington conspired with over \$23,000, who in turn made about \$7,000 in bribe payments to Washington.

We investigated this case with the AmeriCorps OIG, the Federal Bureau of Investigation (FBI), and the GPO OIG. The U.S. Attorney's Office for the Eastern District of Virginia is prosecuting.

Nevada Resident Convicted for \$11.2 Million PPP Fraud

Meelad Dezfooli, of Nevada, was convicted by jury for defrauding three banks of more than \$11.2 million in PPP funds. Specifically, he was convicted of three counts of bank fraud, three counts of money laundering, and four counts of engaging in monetary transactions in criminally derived property. He faces 10–30 years in prison for each count.

Dezfooli submitted three fraudulent PPP loan applications to federally insured banks, purportedly for the benefit of companies that he controlled. Dezfooli falsely represented material information in his loan applications, including about payroll, employees, and use of the loan proceeds. After fraudulently obtaining more than \$11.2 million in PPP funds, Dezfooli laundered or spent the proceeds by, among other things, buying some 25 residences and two luxury cars, funding a personal investment account, and gambling extensively. After he was originally charged, Dezfooli continued laundering criminal proceeds by selling 5 of the residences that he acquired with the fraudulently obtained PPP funds.

We investigated this case with the FDIC OIG, the IRS CI, and the SBA OIG. The U.S. Attorney's Office for the District of Nevada is prosecuting.

Florida Deputy Sheriff and SWAT Team Member Sentenced to Prison for PPP Fraud

Alexandra Acosta, a Broward County, Florida, deputy sheriff and SWAT team member, was sentenced to 4 months in prison and ordered to pay a \$4,000 fine for a PPP fraud scheme. She was convicted by jury of one count of conspiracy to defraud the SBA, two counts of false statements to the SBA, and one count of wire fraud.

Acosta conspired with her tax preparer, Vilsaint St. Louis, to apply for and receive a PPP loan as a realtor based on false information about her income, including falsified IRS tax forms. She also sought and received loan forgiveness, which totaled over \$20,000 in principal and interest. St. Louis pleaded guilty to conspiracy to defraud the United States and was sentenced for his involvement in the scheme.

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

Former CEO of Failed Kansas Bank Sentenced to Prison for Embezzling \$47 Million

Shan Hanes was sentenced to 293 months in prison for embezzling \$47.1 million from Heartland Tri-State Bank as its CEO. The embezzlement caused Heartland, a state member bank serving rural Kansas, to fail, with the FDIC absorbing the \$47.1 million loss.

Hanes embezzled the money to enrich himself in a pig butchering cryptocurrency scheme. In this type of scheme, would-be investors are conned into depositing money into fake accounts controlled by the scammers. The scammers fabricate returns to encourage further deposits, then disappear with the money once the accounts are sufficiently "fattened up." Wielding his personal influence to circumvent Heartland's internal controls, Hanes effected wire transfers totaling \$47.1 million in bank funds to buy cryptocurrency. The loss of assets significantly impaired Heartland's capital and liquidity, and the bank became insolvent.

We investigated this case with the FBI, the FDIC OIG, and the FHFA OIG. The U.S. Attorney's Office for the District of Kansas prosecuted.

Two New York City Police Department Detectives and Two Others Charged for PPP Fraud

John Bolden and Anthony Carreira, New York City Police Department detectives, and Jacqueline Johnson and Christian McKenzie were charged with conspiracy to commit wire fraud in a PPP scheme. If convicted,

each defendant faces up to 30 years in prison. 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 court filings, Bolden and Carreira owned partnership interests in a franchise location for a tax preparation business. Bolden engaged in a scheme to defraud the SBA by working with his clients and codefendants Carreira, Johnson, and McKenzie to fraudulently obtain PPP funds. Bolden sought to obtain, and in many cases did obtain, PPP funds for himself, his codefendants, and more than 65 individuals by helping to submit online loan applications that contained materially false and fraudulent information. As part of the scheme, Bolden prepared fictitious IRS documentation, which accompanied the loan applications, containing false information about his, his codefendants', and his clients' places of employment and income.

We investigated this case with the SBA OIG, the FBI, the New York City Police Department, the Suffolk County Police Department, and the U.S. Department of Education OIG. The U.S. Attorney's Office for the Eastern District of New York is prosecuting.

Former President of Failed Nebraska Bank Sentenced for Bank Fraud

Jackie Poulsen, former president of Ericson State Bank, was sentenced to 18 months in prison followed by 5 years of supervised released and ordered to pay \$815,000 in restitution for bank fraud. Ericson was a subsidiary of the Board-supervised Wheeler County Bancshares, Inc.

As president of Ericson, Poulsen was responsible for overseeing the bank's affairs and managing its dayto-day operations. State examiners reported that the bank's condition had significantly deteriorated over 18 months "due in large part to [the bank] being operated without regard for laws, regulations, prudent banking policies, and practices." Poulsen had personally made, or was directly responsible for, many loans, lines of credit, and coverups of overdrafts that were in violation of state statutory lending limits and which threatened the safety and soundness of the bank. Maturity dates on loans had been extended multiple times without formal documentation; borrowers' financial information was inadequate; collateral for loans was either nonexistent or poorly documented and managed; and deposit accounts, including those held by Poulsen's relative, were frequently and substantially overdrawn. Poulsen's scheme to defraud continued until he was removed from his positions of authority. However, as a result of Poulsen's actions, Ericson was put into FDIC receivership.

We investigated this case with the FBI, the FDIC OIG, and the FHFA OIG. The U.S. Attorney's Office for the District of Nebraska prosecuted.

Florida Resident Sentenced to Prison for \$2.4 Million EIDL and PPP Fraud

Mohamed A. Awad, of Florida, was sentenced to 36 months in prison for fraudulently obtaining over \$2.4 million in EIDL and PPP loans. He was also sentenced to 3 years of supervised release and ordered to pay restitution of \$2.41 million and to forfeit \$1.49 million.

Awad engaged in a scheme to illegally obtain the loans through numerous misrepresentations to lenders. He submitted fraudulent loan applications with fabricated employee numbers, bogus tax documents, and other misrepresented company information. Awad transferred the loan proceeds to various bank accounts he controlled, withdrawing significant amounts in cash and transferring at least \$760,000 to banks based in Egypt.

We investigated this case with the FBI, the FDIC OIG, the IRS CI, the U.S. Postal Inspection Service, and the SSA OIG. The U.S. Attorney's Office for the District of New Jersey prosecuted.

Former Bank Vice President and Branch Manager Convicted for PPP Fraud in New York

Anuli Okeke, former vice president and manager of a New York branch of Popular Bank, was convicted by jury of conspiracy to commit bank and wire fraud, wire fraud, bank fraud, and money laundering conspiracy. She faces up to 30 years in prison. Seven other coconspirators previously pleaded guilty to wire and bank fraud conspiracy in connection with the defendant's scheme.

Okeke led a scheme to fraudulently obtain millions of dollars in EIDL and PPP loans during the height of the COVID-19 pandemic. She and her coconspirators, both from within and outside the bank, fabricated loan and tax documents and stole funds from the EIDL and PPP programs. Despite knowing that the EIDL and PPP applications contained false statements, and helping applicants make those false statements, Okeke signed each PPP loan application on behalf of the bank and submitted them for approval. Once the loan proceeds were disbursed to the borrowers, Okeke and her coconspirators took kickbacks from the loan proceeds. Okeke also submitted her own fraudulent EIDL application that contained false information and took unauthorized commissions from legitimate PPP recipients.

We investigated this case with the FBI, the FDIC OIG, the SBA OIG, and the SSA OIG. The U.S. Attorney's Office for the Eastern District of New York is prosecuting.

Virginia Resident Sentenced for PPP Fraud

Sherman Green, Jr., of Virginia, was sentenced to 3 years of supervised release with the first 27 months being served on home detention with electronic monitoring and ordered to pay over \$338,000 in

restitution after pleading guilty to one count of conspiracy to commit wire fraud for his role in a PPP fraud scheme.

Green and a coconspirator prepared and submitted two PPP loan applications for Green Information Solutions with the assistance of a senior bank officer. In the loan applications, Green represented that he was the president and CEO of the company and fabricated employment, payroll, and other information. Based on these false representations, he received a first PPP loan for more than \$195,000 and a second PPP loan for more than \$143,000. Green then used those funds for other purposes, such as payment to Ford Motor Credit, and transferred funds into his personal accounts.

We investigated this case with the AmeriCorps OIG, the FBI, the SBA OIG, and U.S. Department of Veterans Affairs OIG. The U.S. Attorney's Office for the Eastern District of Virginia prosecuted.

Former Florida Deputy Sheriff Sentenced to Prison for PPP Fraud

Stephanie Diane Smith, a former Broward County Sheriff's Office deputy, was sentenced to 7 months in prison after being convicted by jury of two counts of wire fraud in connection with a PPP fraud scheme. She was also sentenced to 3 years of supervised release, restitution of more than \$31,000, a \$2,000 fine, and forfeiture.

While serving as a deputy sheriff, Smith applied for and received two PPP loans for herself as a sole proprietor doing business as Children 1st Basketball Training and as Agape Smith Vending based on materially false information. She made false claims about each business's gross income and submitted a falsified IRS tax form with each application. Smith also sought and received forgiveness of both fraudulently obtained PPP loans, which totaled over \$31,000.

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

Former Title Agent Sentenced to Prison for \$6.6 Million Mortgage Fraud Scheme in Florida

Dora Martinez, a former title agent licensed in Florida, was sentenced to 36 months in prison and ordered to pay over \$6.6 million in forfeiture for carrying out a \$6.6 million mortgage fraud scheme.

As owner of Apex Title Agency Incorporated, Martinez participated in some 30 fraudulent real estate transactions. She made false and fraudulent statements to an FDIC-insured financial institution and to various non-FDIC-insured private mortgage lenders to defraud them into approving mortgages and lending money. The properties in question were already encumbered by existing mortgages that were not disclosed to the lenders, causing the new lenders to be placed in an inferior lien position to the existing

lenders. The transactions totaled over \$6.6 million in fraudulent proceeds. Martinez also falsely and fraudulently applied for, processed, and received a mortgage refinancing loan that failed to satisfy the existing mortgage and diverted the proceeds for her personal use.

We investigated this case with the FHFA OIG. The U.S. Attorney's Office for the Southern District of Florida prosecuted.

Former IRS Revenue Officer and His Brother Among Six Defendants Sentenced to Prison for Multimillion-Dollar PPP Fraud Scheme in California

Six individuals were sentenced to prison terms for fraudulently obtaining millions of dollars in PPP loans. Frank Mosley, a former IRS revenue officer and former City of Oakland tax enforcement officer; his brother Reginald Mosley; Marcus Wilborn; Aaron Boren; and Scott Conway pleaded guilty to conspiracy to commit bank fraud. Frank and Reginald Mosley also pleaded guilty to aiding and advising in the filing of false tax returns. Kenya Ellis pleaded guilty to bank fraud. Frank and Reginald Mosley were sentenced to 30 months in prison, Wilborn to 18 months, Boren and Conway to 12 months and 1 day, and Ellis to 12 months. Each of the individuals were also ordered to serve 3 years of supervised release and to pay restitution.

Frank and Reginald Mosley submitted a fraudulent PPP loan application for Forward Thinking Investors, which they controlled. After receiving over \$1 million in loan proceeds, Reginald Mosley recruited acquaintances, including Wilborn, Boren, and Conway, to submit additional fraudulent applications. They submitted applications on behalf of four entities they claimed had dozens of employees and hundreds of thousands of dollars in monthly payroll expenses. However, the entities were merely shell companies with no payroll expenses. The defendants received some \$3 million in loan proceeds, which they then used for significant personal expenses, personal credit cards, personal investments, and distributions to their family members. Frank and Reginald Mosley also filed fraudulent tax returns with the IRS in an attempt to cover up their scheme. Ellis allegedly aided and advised Frank and Reginald Mosley and others in submitting fraudulent PPP loan applications, while fraudulently obtaining for herself almost \$300,000 in PPP and other COVID-related loans.

We investigated this case with the IRS CI and the SBA OIG. The U.S. Attorney's Office for the Northern District of California prosecuted.

California Resident Sentenced for Nearly \$1 Million PPP Fraud

Tracy Emery Smith, of Valley Springs, California, was sentenced to 37 months in prison and ordered to pay over \$901,000 in restitution for PPP loan fraud and money laundering.
To receive PPP loans he was not entitled to, Smith submitted loan applications for three companies containing false information, such as the number of employees and the average monthly payroll for the company, and falsely stating that he had not been involved in any bankruptcy. Smith was listed as sole owner of Sharp Holding, for which he received PPP loan proceeds of more than \$220,000. He also received over \$452,000 for Real Fund 360 and \$242,000 for Sharp Investor.

We investigated this case with the FBI, the FDIC OIG, and the IRS CI. The U.S. Attorney's Office for the Eastern District of California prosecuted.

Massachusetts Resident Sentenced to Prison for \$1.5 Million EIDL and PPP Fraud

Joao Mendes, of Massachusetts, was sentenced to 27 months in prison for one count of wire fraud in a scheme to submit false applications for over \$1.5 million in EIDL and PPP loans. He was also sentenced to 1 year of supervised release and ordered to pay over \$1.5 million in restitution and forfeit assets totaling more than \$1.7 million.

Mendes submitted fraudulent EIDL and PPP loan applications on behalf of various entities. The fraudulent PPP loan applications misrepresented the number of employees and the average monthly payroll expenses of Mendes's various businesses. He also allegedly submitted false tax records in support of his loan applications. As a result of the fraudulent applications, Mendes and others received over \$1.5 million in EIDL and PPP funds. Once Mendes received the funds, he spent them for his personal benefit, including purchasing cryptocurrency; transferred funds to other accounts he controlled; and transferred funds to other individuals. The United States seized cryptocurrency and fiat currency from over 20 accounts that, with additional funds turned over by Mendes, resulted in the recovery of over \$1.5 million in cryptocurrency and more than \$206,000 in U.S. currency, which will be criminally forfeited.

We investigated this case with the FBI, the FDIC OIG, the FHFA OIG, the IRS CI, the SBA OIG, the U.S. Postal Inspection Service, and the U.S. Treasury Inspector General for Tax Administration. The U.S. Attorney's Office for the District of Massachusetts and the DOJ Criminal Division prosecuted.

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 327 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 7 legislative items and 4 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 20 responses to congressional members and staff concerning the Board and the CFPB. Additionally, we responded to 17 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 nearly 31,000 reports, detailing for fiscal year 2023 alone around \$82.2 billion in potential savings and around 5,240 recommendations to improve programs across the federal government.

The IG serves as a member of CIGIE's Legislation Committee and Technology Committee and is 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 (IT) audits, evaluations, and investigations and provides a forum for the expression of the OIG community's perspective on governmentwide IT operations. The Investigations Committee advises the OIG community on issues involving criminal investigations, criminal investigations personnel, and criminal investigative guidelines. The IG is also a member of CIGIE's Employee Engagement and Innovation Committee. The committee looks to affirm, advance, and augment CIGIE's commitment to creating and supporting a workplace that is focused on belonging, equity, innovation, and accessibility throughout the IG community.

In addition, the IG serves on CIGIE's PRAC, which coordinates oversight of federal funds authorized by the CARES Act and the COVID-19 pandemic response. The IG is 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 IT professionals throughout the OIG community and reports to the CIGIE Technology Committee on common IT audit issues. During this reporting period, we issued the report on a capstone project we led with IT auditors from five other OIGs to identify trends in cybersecurity performance under FISMA; see the <u>summary</u> below.

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. Finally, several of our staff members participate on CIGIE's Employee Engagement and Innovation Committee.

CIGIE Reports

Federal Information Security Modernization Act of 2014 Capstone Report, Fiscal Years 2020–2023

May 21, 2024

The United States faces persistent and increasingly malicious cyber campaigns that threaten the public sector, the private sector, and ultimately the American people's security and privacy. We worked with CIGIE and other OIGs to report on information security program trends across the government.

Federal agencies have strengthened the maturity of their information security programs on average in recent years. However, the share of agencies with an effective information security program has held at around 60 percent. More actions are needed in key areas—supply chain risk management, cybersecurity risk management, and configuration management—to ensure that agencies' information security programs can deal with cybersecurity threats effectively.

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.
- 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*.
- 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.

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 theBoard During the Reporting Period

Report title	Type of report
Results of Security Control Testing of the Board's Embargo Application	Testing
Calendar Years 2022 and 2023 Risk Assessment of the Board's Purchase Card Program	Risk assessment
FRB Minneapolis Followed Its Paycheck Protection Program Liquidity Facility Collateral Risk Management Processes and Can Enhance Monitoring and Collection Processes	Evaluation
The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce	Evaluation
Total number of audit reports: 0	
Total number of evaluation reports: 2	
Total number of other reports: 2	

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

	_			ons	Status of recommendations		
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	09/24	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	07/24	7	1
2017 Audit of the Board's Information Security Program	10/17	9	9	0	09/24	8	1
Security Control Review of the Board's Public Website (nonpublic)	03/18	7	7	0	07/24	6	1ª
2018 Audit of the Board's Information Security Program	10/18	6	6	0	09/24	5	1
2019 Audit of the Board's Information Security Program	10/19	6	6	0	09/24	4	2
The Board's Oversight of Its Designated Financial Market Utility Supervision Program Is Generally Effective, but Certain Program Aspects Can Be Improved	03/20	6	6	0	08/24	6	0

	_	Rec	ommendati	ons	Status of recommendations		
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
2020 Audit of the Board's Information Security Program	11/20	4	4	0	09/24	3	1
The Board's Implementation of Enterprise Risk Management Continues to Evolve and Can Be Enhanced	09/21	3	3	0	07/24	1	2 ^b
The Board Can Strengthen Inventory and Cybersecurity Life Cycle Processes for Cloud Systems	03/22	3	3	0	07/24	0	3
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	09/24	0	1
The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals	12/22	9	9	0	09/24	4	5
The Board Can Further Enhance the Design and Effectiveness of the FOMC's Investment and Trading Rules	04/23	6	6	0	06/24	3	3

	Recommendations						Status of recommendations		
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open		
Results of Scoping of the Evaluation of the Board and Reserve Banks' Cybersecurity Incident Response Process for Supervised Institutions	06/23	6	6	0	07/24	6	0		
Material Loss Review of Silicon Valley Bank	09/23	7	7	0	n.a.	0	7		
Review of the Supervision of Silvergate Bank (nonpublic)	09/23	12	12	0	09/24	1	11		
2023 Audit of the Board's Information Security Program	09/23	7	7	0	09/24	0	7		
Results of Scoping of the Evaluation of the Board's Intelligence Programs (nonpublic)	12/23	6	6	0	09/24	5	1		
The Board Should Provide Staff With Guidance on Controlled Unclassified Information	01/24	2	2	0	09/24	1	1		
Material Loss Review of Heartland Tri-State Bank	02/24	2	2	0	n.a.	0	2		
Results of Security Control Testing of the Board's Embargo Application (nonpublic)	04/24	1	1	0	n.a.	0	1		

	_	Rec	ommendati	ons	Status of I	recommen	ndations
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
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	n.a.	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.	0	7

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.

^a Corrective action for this recommendation has been verified, but the recommendation was not officially closed as of September 30, 2024.

^b Corrective action for these recommendations has been verified, but the recommendations were not officially closed as of September 30, 2024.

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

Report title	Type of report
Independent Accountants' Report on the CFPB's Fiscal Year 2023 Compliance With the Payment Integrity Information Act of 2019	Audit
The CFPB Can Enhance Certain Aspects of Its Examiner Commissioning Program	Evaluation
The CFPB Effectively Designed a Process to Allocate Surplus Civil Penalty Funds and Monitored Contractor Payments to Victims	Audit
Results of the Security Controls Testing of the CFPB's Consumer Resource Center Mosaic System	Testing
The CFPB Effectively Monitors Consumer Complaints but Can Enhance Certain Processes	Audit
Fiscal Years 2022 and 2023 Risk Assessment of the CFPB's Purchase Card Program	Risk assessment
Forensic Evaluation of Overbilled Labor Hours on CFPB Contracts	Evaluation
Total number of audit reports: 3	
Total number of evaluation reports: 2	
Total number of other reports: 2	

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

		Recommendations		Status of r	ecommer	ndations	
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
The CFPB Can Further Strengthen Controls Over Certain Offboarding Processes and Data	01/18	11	11	0	08/24	11	0
2018 Audit of the Bureau's Information Security Program	10/18	4	4	0	07/24	2	2ª
Technical Testing Results for the Bureau's Legal Enclave (nonpublic)	07/20	4	4	0	08/24	1	3
2022 Audit of the CFPB's Information Security Program	09/22	6	6	0	07/24	2	4 ^b
2023 Audit of the CFPB's Information Security Program	09/23	1	1	0	05/24	0	1
The CFPB Can Enhance Certain Aspects of Its Enforcement Investigations Process	01/24	2	2	0	08/24	1	1
The CFPB Can Enhance Certain Practices to Mitigate the Risk of Conflicts of Interest for Division of Supervision, Enforcement and Fair Lending Employees	02/24	2	2	0	09/24	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

	-	Reco	ommendat	ions	Status of re	ecommer	ndations
Report title	lssue date	Number	Management agrees	Management disagrees	Last follow-up date	Closed	Open
The CFPB Can Enhance Certain Aspects of Its Examiner Commissioning Program	05/24	3	3	0	09/24	0	3
The CFPB Effectively Monitors Consumer Complaints but Can Enhance Certain Processes	06/24	3	3	0	n.a.	0	3

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.

^a Corrective action for one of these recommendations has been verified, but the recommendation was not officially closed as of September 30, 2024.

^b Corrective action for three of these recommendations has been verified, but the recommendations were not officially closed as of September 30, 2024.

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

Report	Dollar value
Forensic Evaluation of Overbilled Labor Hours on CFPB Contracts, September 11, 2024	\$2.3 million

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 ReportingPeriod

Investigative actions	Number or dollar value ^a
Investigative caseload	
Investigations open at end of previous reporting period	143
Investigations opened during the reporting period	12
Investigations closed during the reporting period	23
Investigations open at end of the reporting period	132
Investigative results for the reporting period	
Persons referred to DOJ prosecutors	8
Persons referred to state/local prosecutors	0
Declinations received	4
Joint investigations	109
Reports of investigation issued	1
Oral and/or written reprimands	0
Terminations of employment	0
Unannounced entries (no-knock entries)	0
Arrests	21
Suspensions	0
Debarments	0
Prohibitions from banking industry	1
Indictments	6

Investigative actions	Number or dollar value ^a
Criminal informations	16
Criminal complaints	6
Convictions	21
Civil actions	\$0
Administrative monetary recoveries and reimbursements	\$0
Civil judgments	\$120,163,504
Criminal fines, restitution, and special assessments	\$19,709,946
Forfeiture	\$60,572,896

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

^a 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	6
Complaints received during reporting period	327
Total complaints for reporting period	333
Complaints resolved during reporting period	329
Complaints pending	4

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.

- We initiated an investigation into allegations that a former CFPB senior employee made unauthorized transactions with their government travel card. We substantiated these allegations. This matter was referred to the U.S. Attorney's Office on March 4, 2024. The U.S. Attorney's Office declined this matter on March 26, 2024, based on the administrative action taken to terminate the individual's employment with the CFPB and because there was no monetary loss to the government.
- We initiated an investigation into allegations that a senior Board Law Enforcement Unit employee engaged in misconduct and created a toxic and hostile work environment. We substantiated that the employee engaged in a pattern of unprofessional and inappropriate behavior that violated Law Enforcement Unit and Board policies. During the course of this investigation, we also substantiated that the employee received benefits to which they were not entitled, in violation of an applicable federal statute and Law Enforcement Unit policy. We referred our findings in this matter to management for any action they deem appropriate. Our investigation is closed.

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

• See the summaries directly above.

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	2	2ª
2019	1	2
2020	1	1
2021	1	2 ^b
2022	4	10
2023	5	29
2024°	2	3

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

^a Corrective action for one of these recommendations has been verified, but the recommendation was not officially closed as of September 30, 2024.

^b Corrective action for these two recommendations has been verified, but the recommendations were not officially closed as of September 30, 2024.

^c Through March 31, 2024.

2016 Audit of the Board's Information Security Program

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.

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

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.

Security Control Review of the Board's Public Website (nonpublic)

2018-IT-B-008R

Total number of recommendations: 7 Recommendations open: 1

The open recommendation relates to strengthening cybersecurity risk management processes.

April 17, 2017

October 31, 2017

March 21, 2018

2018 Audit of the Board's Information Security Program

2018-IT-B-017

October 31, 2018

October 31, 2019

Total number of recommendations: 6 Recommendations open: 1⁴

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.

2019 Audit of the Board's Information Security Program

2019-IT-B-016

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.

2020 Audit of the Board's Information Security Program

2020-IT-B-020

November 2, 2020

Total number of recommendations: 4 Recommendations open: 1

3. Ensure that the Board's continuous monitoring processes include the security control requirements for applicable network devices.

^{4.} The status of this recommendation is verified, not officially closed.

The Board's Implementation of Enterprise Risk Management Continues to Evolve and Can Be Enhanced

2021-IT-B-011

September 15, 2021

Total number of recommendations: 3 Recommendations open: 2⁵

- 1. Work with Board divisions to conduct an assessment of the current risk management practices and risk culture across the agency and use the results to inform the direction of the Board's enterprise risk management program.
- 2. Work with the administrative governor, as appropriate, to determine an optimal governance structure and associated reporting relationships for the agency's enterprise risk management program and update the *Delegations of Administrative Authority* accordingly.

<u>The Board Can Strengthen Inventory and Cybersecurity Life Cycle Processes</u> <u>for Cloud Systems</u>

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.
- Develop and implement a process to ensure that the Federal Risk and Authorization Management Program Program 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.

^{5.} The status of these recommendations is verified, not officially closed.

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

2022-IT-B-008R

Total number of recommendations: 1 Recommendations open: 1

The open recommendation relates to strengthening software asset management processes.

2022 Audit of the Board's Information Security Program

2022-IT-B-013

September 30, 2022

June 15, 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: 5

- 1. Develop, in consultation with the Board of Governors, a dashboard or similar tool for Board members that forecasts planned supervisory policy and guidance proposals. As part of this effort, assign responsibilities for maintaining and updating the dashboard or tool and establish a frequency for distributing the dashboard or tool.
- 3. Issue internal guidance on the process for soliciting public comment on supervisory policy and guidance proposals that defines
 - a. the types of supervisory proposals that should be submitted for public comment.
 - b. the options for soliciting public comment on a proposal.
 - c. the factors that should be considered when determining whether to seek comment and, if the Board decides to solicit public comment on a supervisory proposal, which option to use.
 - d. the approval process for whether and how to solicit public comment.
- 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 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

September 25, 2023

Total number of recommendations: 7 Recommendations open: 7

- 1. 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 Bank Exams Tailored to Risk 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.
- 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.
- 6. Assess the current LFBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.
- 7. Develop guidance for LFBO Supervision staff that outlines the importance of a balanced approach to supervising institutions and requires a focus on assessing both forward-looking risks and relevant financial indicators.

Review of the Supervision of Silvergate Bank (nonpublic)

2023-SR-B-014R

September 27, 2023

Total number of recommendations: 12 Recommendations open: 11

- 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.
- 3. Develop guidance to ensure that banking organizations engaged in new and novel business activities have a custom-tailored supervisory plan and approach appropriate for their uniqueness and associated risks.
- 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.
- 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.
- 10. Expand examiner guidance to address supervising firms with concentrated deposits, large customer relationships, and concentrated business models susceptible to boom and bust cycles based on the lessons learned from Silvergate's voluntary liquidation.
- 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 Audit of the Board's Information Security Program

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 Scoping of the Evaluation of the Board's Intelligence Programs</u> (nonpublic)

2023-MO-B-019R

December 11, 2023

Total number of recommendations: 6 Recommendations open: 1

The open recommendation relates to the Board intelligence programs establishing measurable performance objectives.

The Board Should Provide Staff With Guidance on Controlled Unclassified Information

2024-MO-B-001

January 8, 2024

Total number of recommendations: 2 Recommendations open: 1

2. Update annual training materials to increase controlled unclassified information safeguarding awareness.

Material Loss Review of Heartland Tri-State Bank

2024-SR-B-004

February 7, 2024

Total number of recommendations: 2 Recommendations open: 2

- 1. Increase awareness among state member banks of cryptocurrency scams by providing an informational update that
 - a. describes characteristics of prevalent cryptocurrency scams and how banks can identify such scams.
 - b. reminds state member banks of existing guidance on how and when to report suspicious activity.
- 2. Provide training to examiners on prevalent cryptocurrency scams and relevant preventive and detective controls at banks.

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	2ª
2019	0	0
2020	1	3
2021	0	0
2022	1	4 ^b
2023	1	1
2024 ^c	2	4

^a Corrective action for one of these recommendations has been verified, but the recommendation was not officially closed as of September 30, 2024.

^b Corrective action for three of these recommendations has been verified, but the recommendations were not officially closed as of September 30, 2024.

^c Through March 31, 2024.

2018 Audit of the Bureau's Information Security Program

2018-IT-C-018

October 31, 2018

Total number of recommendations: 4 Recommendations open: 2⁶

- 1. Strengthen configuration management processes by
 - a. remediating configuration-related vulnerabilities in a timely manner.
 - b. ensuring that optimal resources are allocated to perform vulnerability remediation activities.
- 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.

^{6.} The status of recommendation 1 is verified, but not officially closed.

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

2020-IT-C-017R

July 22, 2020

Total number of recommendations: 4 Recommendations open: 3

The open recommendations relate to strengthening vulnerability management, configuration management, and testing processes.

2022 Audit of the CFPB's Information Security Program

2022-IT-C-014

September 30, 2022

Total number of recommendations: 6 Recommendations open: 4⁷

- 3. Ensure that policies and supporting procedures for developing and maintaining an enterprisewide software inventory are developed and maintained.
- 4. Ensure that an enterprisewide software inventory is conducted and maintained.
- 5. Ensure the development of policies and procedures for the performance and maintenance of an organizationwide business impact analysis.
- 6. Update the CFPB's organizationwide business impact analysis and ensure that the results are used to make applicable changes to related contingency and continuity plans.

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.

^{7.} The status of recommendations 3, 5, and 6 is verified, not officially closed.

The CFPB Can Enhance Certain Aspects of Its Enforcement Investigations Process

2024-SR-C-002

Total number of recommendations: 2 Recommendations open: 1

1. Incorporate the timing expectations for key steps in the enforcement process established in the Office of Enforcement's internal guidance into the tracking and monitoring of matters.

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

2024-MO-C-010

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.

January 8, 2024

March 20, 2024

Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
СВО	Community Banking Organization
CEO	chief executive officer
CI	Criminal Investigation
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CPF	Civil Penalty Fund
CSR	Committee on Supervision and Regulation
DIF	Deposit Insurance Fund
DOJ	U.S. Department of Justice
EIDL	Economic Injury Disaster Loan
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHFA	Federal Housing Finance Agency
FISMA	Federal Information Security Modernization Act of 2014
FOMC	Federal Open Market Committee
FRB Atlanta	Federal Reserve Bank of Atlanta
FRB Minneapolis	Federal Reserve Bank of Minneapolis
GPO	U.S. Government Publishing Office
IG	inspector general
IRS	Internal Revenue Service
п	information technology
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
SSA	U.S. Social Security Administration

Office of Inspector General

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

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OIG Hotline

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