Consumer Financial Protection Bureau Independent Audit of Selected Operations and Budget

February 25, 2015

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Table of Contents

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

EXECUTIVE SUMMARY

February 25, 2015

Mr. Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

Dear Mr. Cordray:

This report presents the results of our work conducted to address the performance audit objectives relative to the Consumer Financial Protection Bureau (hereinafter referred to as "CFPB" or "Bureau"). Our work was performed during the period October 1, 2014 to February 16, 2015, and our results, reported herein, are as of February 25, 2015.

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objectives.

As specified by CFPB, our audit objectives were to evaluate CFPB's (1) budget process relative to CFPB policies and procedures established over budget formulation, execution, and monitoring; (2) the Civil Penalty Fund (CPF) relative to applicable provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act and CFPB policies and procedures established to administer the CPF; (3) records management function relative to applicable provisions of 44 U.S.C. Chapter 31, Records Management by Federal Agencies, leading practices established by the National Archives and Records Administration, and CFPB policies and procedures; (4) process for assessing internal control effectiveness relative to the Office of Management and Budget (OMB) Circular No. A-123 (A-123), *Management Responsibility for Internal*

Control; and (5) corrective actions taken to resolve the findings and recommendations included in CFPB's *2013 Independent Audit of Selected Operations and Budget*, which was performed by KPMG.

As our report further describes, we identified the following findings as a result of the work performed to meet our audit objectives:

A. Mid-year budget review control needs to be strengthened.
B. Certain aspects of CFPB's corrective action framework need to be strengthened.

We recommend that:

- OCFO continues to ensure that policies and procedures for the Mid-Year budget review process are enforced.
- Program offices should verify that any program changes (such as those occurring as a result of the contracting process) are communicated in a timely and appropriate manner to the OCFO as part of the mid-year budget review process so that necessary adjustments can be made at that time to accurately reflect the status of the program.
- CFPB should revise policies and procedures to ensure that all CFPB findings (A-123 and external reviews and audits) are addressed in the Corrective Action Plans process that includes the appropriate accountability, monitoring, and communication.

This performance audit did not constitute an audit of financial statements in accordance with *Government Auditing Standards* or *U.S. generally accepted auditing standards.* KPMG LLP was not engaged to and did not render an opinion on the CFPB's internal controls over financial reporting or over financial management systems (for purposes of OMB Circular No. A-127, *Financial Management Systems*, July 23, 1993, as revised).

This report is intended solely for the information and use of the Consumer Financial Protection Bureau, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

KPMG LLP

BACKGROUND

The Consumer Financial Protection Bureau (CFPB) was established on July 21, 2010 under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act Public Law No. 111-203 (Dodd-Frank Act) as an independent bureau within the Federal Reserve System. The Bureau is an Executive agency, as defined in Section 105 of Title 5, United States Code, with a mission to make markets for consumer financial products and services work for Americans — whether they are applying for a mortgage, choosing among credit cards or using any number of other consumer financial products. To accomplish its mission, the CFPB seeks to educate consumers, enforce Federal consumer financial laws, and gather and analyze information to better understand consumers, financial service providers and consumer financial markets.

The CFPB has a diverse mandate and roles that were previously covered by seven different agencies responsible for rulemaking, supervision and enforcement relating to consumer financial protection. The agencies which previously administered statutes transferred to the CFPB are the Board of Governors of the Federal Reserve System (Board of Governors); the Office of the Comptroller of the Currency (OCC); the Office of Thrift Supervision (OTS); the Federal Deposit Insurance Corporation (FDIC); the National Credit Union Administration (NCUA); the Federal Trade Commission (FTC); and the Department of Housing and Urban Development (HUD).

To accomplish its mission, the CFPB developed and is continuing to build a workforce with a broad and diverse depth of public and private industry experience that is spread across the country, with its headquarters in Washington, D.C. and regional offices in Chicago, New York City and San Francisco. The CFPB is organized into six primary divisions:

- *Consumer Education and Engagement* – Responsible for providing, through a variety of initiatives and methods, information to consumers that will allow them to make decisions that are best for them.
- *Supervision, Enforcement, and Fair Lending* – Responsible for ensuring compliance with Federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate.
- *Research, Markets, and Regulations* – Responsible for understanding consumer financial markets and consumer behavior, for evaluating whether there is a need for regulation and for determining the costs and benefits of potential or existing regulations.
- *Legal Division* – Responsible for the CFPB’s compliance with all applicable laws, and provides advice to the Director and the Bureau’s divisions.

- *External Affairs* – Responsible for managing the CFPB's relationships with external stakeholders and for ensuring that the Bureau maintains robust dialogue with interested stakeholders to promote understanding, transparency, and accountability.
- *Operations Division* – Responsible for building and sustaining the CFPB's operational infrastructure to support the entire organization.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives and Scope

As specified by the CFPB, the objectives of our performance audit were to evaluate CFPB's:

1. Budget process relative to its policies and procedures established over budget formulation, execution, and monitoring;
2. Civil Penalty Fund (CPF) relative to applicable provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act and CFPB policies and procedures established to administer the CPF;
3. Records management function relative to applicable provisions of 44 U.S.C. Chapter 31, Records Management by Federal Agencies, leading practices established by the National Archives and Records Administration, and CFPB policies and procedures;
4. Process for assessing internal control effectiveness relative to Office of Management and Budget (OMB) A-123 (A-123); and
5. Corrective actions taken to resolve the findings and recommendations included in CFPB's *2013 Independent Audit of Selected Operations and Budget*.

Methodology and Approach

We conducted our performance audit in accordance with the performance audit standards in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. Our responsibility is to provide findings and recommendations based on the results of our audit. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objectives.

Our methodology consisted of the following four-phased approach:

1. *Project Initiation and Planning* – We met with CFPB key personnel to (1) reaffirm CFPB and our collective understanding of the performance audit objectives and scope, (2) highlight our methodology and approach to meet the audit objectives, (3) request certain information from CFPB needed to perform

our audit, and (4) gain an understanding of the status of corrective actions plans over our prior year findings.

2. *Data Gathering* – We interviewed key CFPB personnel to obtain an understanding of processes, controls, and available documentation for each audit objective. For each audit objective, we (1) researched leading practices, (2) obtained and reviewed relevant documentation, (3) selected samples for detailed testing and further analysis, when appropriate, and (4) documented the work performed and results of our audit procedures.
3. *Analysis Using Established Criteria* – Our evaluation criteria was developed from a variety of sources including technical guidance published by OMB and used by CFPB as leading practices (e.g. OMB A-123, OMB Circular No. A-11[A-11], *Preparation, Submission and Execution of the Budget)*[1], applicable laws and regulations; and CFPB's policies and procedures (e.g. CFPB final ruling issued in the *Federal Register, 12 CFR Part 1075*),
4. *Findings and Recommendations* – The results of our audit work were the basis for our audit findings and recommendations. These findings and recommendations were formally communicated to CFPB management through our Notice of Findings and Recommendation process. We held multiple meetings with CFPB management to discuss our findings, recommendations, the content of the auditor's report, and steps related to the final reporting process.

The sections below present an overview of each of the audit objectives and the key procedures performed on each area.

CFPB's Budget Process

Pursuant to the Dodd-Frank Act ("the Act"), the CFPB is funded principally by transfers from the Board of Governors of the Federal Reserve System ("the Board") up to a limit set forth in the Act. In addition, pursuant to the Act, the CFPB is also authorized to collect and use, for specified purposes, civil penalties collected from any person or entity in any judicial or administrative action brought under federal consumer financial law. During fiscal years 2013 and 2014, the CFPB's annual transfers from the Board totaled approximately $518 million and $534 million, respectively. The CFPB budget process consists of budget formulation (including budget submission and approval), budget execution, and budget monitoring (including reporting).

[1] While not required to comply with OMB regulations, CFPB uses such OMB regulations as indicators of leading practices.

The annual budget formulation process begins approximately 18 months before the beginning of the fiscal year in which the budget will be executed. This is a collaborative effort between the OCFO and CFPB Divisions and their offices. To facilitate a standardized and consistent budget formulation process, the OCFO has developed policies and procedures, including templates for gathering relevant data, to allow the program or division to support the amounts requested and link to the CFPB goals set by the Director.

The CFPB's Operations Division is responsible for coordinating activities for budget formulation across the Bureau. Working in collaboration with other CFPB divisions, the OCFO has primary responsibility for developing the budget (including staffing estimates) consistent with statutory requirements, performance goals, and CFPB priorities.

The CFPB Director has final approval authority over the budget. Once the annual budget is approved by the Director, it is distributed internally, communicated to OMB (but not subject to approval by OMB) and posted on the CFPB website.

The budget execution process begins when the CFPB receives the transfers of funds from the Board. The CFPB and the Board have entered into an inter-agency agreement for the continued funding of the operations of the CFPB set forth in Section 1017(b) of the Dodd-Frank Act. Under this agreement, the Board will transfer funds quarterly to the CFPB when the Director notifies the Board of the amounts needed.

To execute its budget, CFPB exercises administrative control of funds through several measures. A financial plan is developed for each division and distributed at the beginning of each fiscal year. Within the financial plan, each division is allocated a target staffing headcount and personnel and non-personnel funding for the fiscal year. Divisions are expected to adhere to their financial plan allocations and to work collaboratively with the OCFO to request any additional funding and/or staffing if needed throughout the year. The OCFO has established policies and procedures for the approvals of requisitions and commitments related to CFPB's funds. Procurement requests of more than $3,000 must be initiated and approved by the program office chief or head of office. Procurement requests of $500,000 or higher must also be approved by the Senior Procurement Officer, the Chief Financial Officer, the Chief Operating Officer (COO) and the Chief of Staff, as well as first (i.e., prior to initial funding) by CFPB's Investment Review Board (IRB).

To process budgetary transactions and enforce fund controls, CFPB has entered into an inter-agency agreement for accounting services with the U.S. Department of the Treasury's Bureau of the Fiscal Service. Accounting services provided to CFPB include recording financial transactions such as budget authority, allocations, collections, accounts receivable, commitments, obligations, accruals, accounts payable, disbursements, and journal entries. The Bureau of the Fiscal Service's automated accounting systems provide the budgeting and funds control at various organizational and spending levels, which are established at the request of the customer agency. To complement these fund controls, the CFPB has established a number of additional monitoring controls, such as monthly budget execution summary reports; quarterly CFO reviews, and the mid-year budget review. In addition, the OCFO has established policies and procedures to perform a quarterly accrual analysis of obligations of $100,000 or greater to determine if goods and services were received.

Our methodology and approach for evaluating the budget process included the following procedures:

- Interviewed CFPB key budget personnel within the individual division/program offices and the OCFO regarding formulation, execution and monitoring;
- Obtained the policies and procedures for budget formulation, execution and monitoring;
- Obtained an understanding of the budget formulation, execution and monitoring process through discussions with management of CFPB's OCFO and select CFPB divisions;
- Obtained and reviewed documents used to support the budget formulation process;
- Compared the CFPB budget formulation, execution and monitoring process to OMB A-11 as an indicator of leading practice;
- Obtained and reviewed documents to support the fact that the fiscal year 2014 budget was discussed with the program offices, was reviewed and approved by CFPB's Director, and was widely communicated throughout the organization;
- Obtained an understanding of the budget execution and monitoring process through discussions with OCFO management and select CFPB offices;
- Reviewed CFPB's support for its mid-year budget review; and
- Obtained and reviewed the user controls noted in the Bureau of Public Debt Service Organization Control report under Statement on Standards for Attestation (SSAE) No. 16: *Report on the Bureau of the Public Debt Administrative Resource Center's Description of its Financial Management Services and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2013 to June 30, 2014*, issued by KPMG, L.L.P, , which performed this SSAE No. 16 attestation for the Bureau of Public Debt.

Refer to **Finding A** in the *Findings and Recommendations* section of this report for our findings and recommendations related to our budget audit objective.

CFPB’s Civil Penalty Fund

The CFPB’s Civil Penalty Fund (CPF) was established by § 1017(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act , which establishes in the Federal Reserve a separate fund known as the “Consumer Financial Civil Penalty Fund.” The CPF was established and is maintained at a Federal reserve bank, namely the Federal Reserve Bank of New York. When the CFPB obtains a civil penalty against any entity or person in any judicial or administrative action under Federal consumer financial laws, the amount of the penalty collected is deposited into the CPF. The amounts in the CPF are available to the Bureau without fiscal year limitation for payments to the victims of activities for which civil penalties have been imposed under the Federal consumer financial laws. To the extent that such victims cannot be located or such payments are otherwise not practicable, the Bureau may use such funds for the purpose of consumer education and financial literacy programs. In May 2013 the CFPB published a final rule (“the rule”) that specifies the conditions under which victims will be eligible for payment from the CPF and the amounts of the payments that CFPB may make to them. In addition, the rule sets forth procedures CFPB will follow for allocating and distributing funds from the CPF.

The rule describes the roles of CFPB officials involved in managing the CPF; establishes the position of Civil Penalty Fund Administrator (“the Fund Administrator”); and states that the Fund Administrator will report to the Chief Financial Officer (CFO). In addition, the rule provides that the CPF Governance Board (which is the body comprised of senior CFPB officials established by the Director to advise on matters relating to the CPF) may advise or direct the Fund Administrator on the administration of the CPF. Furthermore, the rule identifies the category of victims who may receive payments, to the extent practicable, from the CPF and sets forth the procedures for determining victims’ compensable harm and the amounts they may receive. When possible, the amount of compensable harm and possible payments will be based on the objective terms of the relevant order. If the amount of harm cannot be determined based on the terms of the order alone, victims’ compensable harm is the victims’ out-of-pocket loss that resulted from the violation, unless that amount would be impracticable to determine.

The rule establishes a two-stage procedure for expending money in the CPF beginning with the Fund Administrator allocating funds for payments to victims and, if appropriate, for consumer education and financial literacy programs. Once an Allocation Period has concluded, the Fund Administrator allocates amounts from the CPF to classes of victims (that is, victims who suffered the same or similar violations for which the CFPB obtained relief in an enforcement action). After allocation, the Fund Administrator designates a payments administrator (through the Federal procurement process) to disburse the allocated funds to the classes of victims to which funds have been allocated. For funds allocated to consumer education and financial literacy programs, the CFPB has adopted criteria for selecting the particular consumer education or financial literacy programs to be funded.

The Fund Administrator allocates funds from the CPF on a six-month schedule. The Fund Administrator is responsible for establishing the schedule of six-month periods. Following the end of any given six-month period, the funds available for allocation are those present in the CPF as of the end of that period, less any funds already allocated and certain other funds. In general, the Fund Administrator allocates the available funds to those classes of victims that had uncompensated harm as of the end of that six-month period, unless making payments to that class would be impracticable. If sufficient funds are available, the Fund Administrator will allocate to all such classes of victims enough money to provide full compensation to the victims in those classes to whom it is practicable to make payments. If funds remain, the Fund Administrator may allocate a portion of those remaining funds for consumer education and financial literacy programs.

Our methodology and approach for evaluating the CPF process included the following procedures:

- Interviewed CFPB personnel regarding the goals, plans, and methodologies used to coordinate and carry out CPF initiatives regarding payments to victims and consumer education and financial literacy;
- Obtained and reviewed the documentation supporting the most recent CPF distributions to assess the determination of the amount of funds available for allocation;
- Obtained and reviewed the supporting documentation for any allocations for the consumer education and financial literacy program;
- Researched leading practices and regulations for the CPF, such as CFPB's final ruling issued in the *Federal Register, 12 CFR Part 1075*;
- Reviewed other pertinent documents, including a report from the Government Accountability Office (GAO), *"Dodd-Frank Act Regulations: Implementation Could Benefit from Additional Analyses and Coordination,"* GAO-12-151, November 10, 2011; and
- Obtained and reviewed the user controls noted in the Epiq Systems Class Action & Claims Solutions, Inc. report under Statement on Standards for Attestation (SSAE) No. 16: *Class Action and Claims Solutions Data Center Services, Service Organization Control Report for the Period January 1, 2013 to September 30, 2014,* issued by Grant Thornton.

CFPB's Records Management Function

Like all other Federal agencies, CFPB creates a large number of records in all of its offices. The CFPB's records document the history and transactions of CFPB. The CFPB Records Management Team:

- Helps CFPB employees to create and receive federal records needed to conduct the business of the CFPB, and document the organizational functions, policies, decisions, procedures, and essential transactions for which they are responsible;
- Helps the National Archives and Records Administration to identify and appraise temporary and permanent CFPB records, and accept the transfer of historically valuable records documenting the CFPB essential activities; and
- Helps to mitigate the risk that CFPB records are prematurely destroyed or removed from CFPB custody without proper authorization.

The CFPB records management team is responsible for developing and implementing a records management program to identify, classify, and schedule official records effectively and efficiently while also establishing principles, responsibilities, and requirements for managing CFPB's records in accordance with federal laws and regulations. Additionally, the CFPB records management team ensures that records management principles and practices are incorporated into CFPB's technological innovations.

The methodology and approach for evaluating the records process included the following procedures:

- Interviewed CFPB records management personnel regarding the records management policies and procedures;
- Obtained and reviewed documentation of policies and procedures around the records function of CFPB;
- Obtained and reviewed data supporting CFPB's records assessments and evaluations performed;
- Researched appropriate federal benchmarks, federal leading practices, and comparable Federal models/external comparisons used to inform evaluation criteria, and evaluated documentation and data in order to compare this information with identified criteria such as the National Archives and Records Administration (NARA) General Records Schedules (GRS); and
- Obtained and reviewed a sample of the Records Liaison Officer's Assessment Guide, a self-assessment that was performed by individual CFPB program offices.

CFPB's Process of Assessing Internal Controls

Although the CFPB is not required to follow certain OMB guidance, the OCFO has an established process to assess internal controls over financial reporting using OMB's Circular A-123 as a leading practice in order to provide reasonable assurance of the effectiveness and efficiency of the control environment around its financial processes for Fiscal Year 2014. The purpose of this process is to document the results of the assessment conducted over the financial reporting process. For Fiscal Year 2014, the assessment was performed on controls identified by management as key and consisted of four phases:

1. Walkthrough,
2. Risk and Control Matrix,
3. Testing, and
4. Evaluation of controls.

The OCFO Internal Controls Team (ICT) performs and documents a walkthrough of the financial reporting process with each process owner. The ICT evaluates the internal controls that are identified to provide reasonable assurance that these controls can accomplish the related process objectives. Furthermore, the ICT conducts a risk assessment to detect potential risk areas relating to the process that could impede reliable financial reporting and compliance with applicable laws and regulations. The ICT notes the key controls in place to mitigate these risks for purposes of conducting a further assessment, which will determine whether internal controls over (1) operations and financial reporting are effective and efficient and (2) compliance with applicable laws and regulations were operating effectively.

The ICT populates a risk and control matrix in order to document the process risks, control objectives, and mitigating control activities in place, which facilitates the evaluation of control design. In addition, the ICT uses the matrix to develop procedures to test the operating effectiveness of the key control activities identified.

Based on the test plans that are developed, the ICT completes testing for each key control in accordance with one or more of the testing approaches listed within the OMB A-123 Appendix "A", Implementation Guide. The testing performed allows for the identification of operating deficiencies where applicable. To the extent that performance improvement opportunities are identified, these are also noted during the assessment.

The fiscal year 2014 assessment included evaluations of internal control design and tests of internal control operating effectiveness. Three categories of design deficiencies are applicable to internal control design: design gaps, design deficiencies and documentation deficiencies. Operating deficiencies, applicable to testing of internal control operating effectiveness, exist when a properly designed control does not operate as intended, or when the person performing the control does not possess the necessary authority or qualification to perform the control effectively. In addition, performance improvement opportunities (PIOs) applicable to both evaluations of internal control design and tests of internal control operating effectiveness are noted where an improvement to a process could be beneficial.

Our methodology and approach for the internal control assessment process included the following procedures:

- Interviewed CFPB personnel regarding the policies and procedures pertaining to the OMB A-123 assessment and reporting process;
- Obtained an understanding of OMB A-123 and compared this document to the CFPB guidance, policies and procedures;
- Reviewed the CFPB entity wide risk assessment process; and
- Selected a sample of internal control tests performed by CFPB and re-performed these tests.

Refer to **Finding B** in the *Findings and Recommendations* section of this report for our findings and recommendations related to this audit objective.

Corrective Actions Taken to Resolve the FY2013 Audit Report Findings and Recommendations

CFPB developed corrective action plans to address the four prior year findings included in the *2013 Independent Audit of Operations and Budget* report.[2] The table below captures the status of the prior year findings based on the results of our 2013 performance audit procedures:

[2] *2013 Independent Audit of Selected Operations and Budgets, KPMG, October 23, 2013.*

2013 Findings	2013 Finding Type	2014 Status
Controls Over the Contracting Officer Representative (COR) Function Need To Be Strengthened	Control Deficiency	**Partially Remediated** - Controls over the COR function still need improvement. To help ensure adequate control over the COR function, CFPB assessed COR compliance with its own policy requirements, including whether CORs maintain required documentation in accordance with CFPB's COR File Policy. KPMG reviewed the results of CFPB's COR file audits undertaken to address this recommendation and noted that these reviews continued to identify that documentation required by this policy is not being retained by a number of CORs in their official COR files.
Certain Monitoring Controls Over Budget Execution and Monitoring Need To Be Strengthened	Control Deficiency	**Remediated**
A need to respond timely to written inquiries related to contact center service level agreements (SLAs)	Noncompliance	**Remediated**
Development of a Continuity of Operations Plan (COOP) needed	Risk of Deficiency or Noncompliance	**Remediated**

A. Our methodology and approach for the corrective actions process included the following procedures:

- Reviewed the findings and related recommendations included in the *2013 Independent Audit of Operations and Budget*, which were defined as either a risk of deficiency or non-compliance, or a deficiency in internal control and the associated recommendations;
- Obtained and reviewed the corrective action plan (CAP) developed by CFPB for the four findings mentioned above;
- Reviewed documentation supporting the CFPB actions specified in the CAP and how the actions taken address the prior year findings; and
- Obtained management's approach for the disposition of the performance improvement observations identified in the above 2013 performance audit report.

Findings and Recommendations

Our 2014 performance audit identified two control deficiency[3] findings, which are presented below. Other less significant matters that came to our attention were communicated to CFPB through the use of a Notice of Findings and Recommendations process. We discussed the results of the performance audit with CFPB's CFO, Deputy CFO, Budget Director, Senior Procurement Executive, Deputy Director of Procurement, the Counsel to the CFO, the Audit Focus Area Leads, and the COR for the audit contract in an exit conference held on February 25, 2015.

A. Mid-Year Budget Review Control Needs To Be Strengthened

Condition:

The CFPB elected to allow each office or division to manage its own budget. The cornerstone of allowing each office or division to manage its own budget at the local level (versus centrally within the CFO) is timely, user-friendly, and consistently formatted budget/funding reports for each office or division, coupled with regularly scheduled meetings to assist offices or division to properly manage within their approved budgets. As such, the CFPB has established a number of key controls over its budget formulation, execution, and monitoring function, including a mid-year budget review.

The mid-year budget reviews are to be performed to:

- Facilitate budget adjustments needed to timely and accurately reflect the current needs for the remainder of the fiscal year;
- Evaluate the status of spending to ensure timely obligation of funds, per CFO and Procurement guidance;
- Identify potential unfunded needs and surpluses; and
- Identify potential base shortfalls that can be corrected in the multiyear planning process.

Based on the results of testing a sample of eleven budget requests (e.g. investment estimates and current contracts) and relevant documentation that CFPB uses to track the status of such budget requests, we noted an instance where the mid-year review did not identify adjustments needed to the investment estimate for

[3] Government Auditing Standards, 2011 Revision – Paragraph 6.2. In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met.

the temporary childcare facility. In this instance the necessary budget adjustments were not identified and/or communicated appropriately.

Criteria:

Section 4, Annual Financial Operating Plan “Monitoring,” of the Policy states:

a. Each CFPB program office will receive periodic management reports on planned versus year-to-date (YTD) actual expenditures, including meetings between CFPB program offices and CPO staff as necessary.

b. Quarterly Performance Reviews (QPRs) with individual divisions will be conducted to review performance against financial plan s and measures.

c. Additionally, a rigorous, systematic Mid-Year Review process in the April/May timeframe will be conducted. After the close of the second quarter, OCFO conducts a Midyear/Spend Plan Review ·with each program office to assess the financial position of the organization. This review:

- Evaluates the status of spending to ensure timely obligation of funds, per CFO and Procurement guidance;
- Identifies potential unfunded needs and surpluses;
- Identifies potential base shortfalls that can be connected in the multiyear planning process; and
- Updates operating plans for the remainder of the year.

Cause/Effect:

CFPB program management was provided a mid-year review of budget estimates. However, the program office did not communicate to the OCFO the impact of program changes that affected the overall budget estimate, which included funding requests, commitments, obligations, and accruals for the remainder of the fiscal year. While the CFPB accounts for unobligated budgetary resources and makes adjustments to transfer requests in order to reduce unobligated budgetary resources, the observed condition may result in the risk of a continued increase in the reported balance of unobligated budgetary resources. Additionally, some program office staff members responsible for providing information to the OCFO seem to have limited experience or knowledge of Federal and CFPB budget processes, which caused the mid-year budget control not to be performed as intended.

Recommendations:

We recommend that CFPB management implement the following recommendations to improve controls over its budget formulation and execution function:

- OCFO continues to ensure that policies and procedures for the Mid-Year budget review process are enforced.
- Program offices should verify that any program changes (such as those occurring as a result of the contracting process) are communicated in a timely and appropriate manner to the OCFO as part of the mid-year budget review process so that necessary adjustments can be made at that time to accurately reflect the status of the program.

B. Certain Aspects of CFPB's Corrective Action Framework Need To Be Strengthened

Conditions:

CFPB management captures internal control deficiencies from multiple sources, including the annual Director's Assurance Statement issued using OMB A-123 as guidance, and findings from the external auditors. The CFPB has implemented a Corrective Action Plan framework whose objective is to address deficiencies noted. However, during our review of the CFPB's OMB A-123 process and the OCFO's Corrective Action Plans to capture external auditors' findings, we noted the following:

1. While A-123 and other auditor findings are tracked, there is no central deficiency log for tracking and/or monitoring findings identified across CFPB. No formal process is in place to take a holistic approach to reviewing all CFPB findings to ensure that efficiencies and consistencies are realized on issues that cross-cut the agency.
2. The current corrective action plan process does not take into account issues that are identified from the A-123 process nor does the process include formal procedures to ensure successful implementation of corrective action plans.

Criteria:

As leading practices, OMB A-123's implementation guide states that "To facilitate corrective action plan preparation, accountability, monitoring, and communication, agencies are encouraged to construct a corrective action planning framework to facilitate stakeholder oversight and ensure accountability for results. This framework should address the needs of the agency personnel responsible for carrying out the resolutions tasks, agency leadership responsible for oversight, and external stakeholders (e.g., OMB). Therefore, agencies must prepare detailed plans that can be summarized for both internal and external reporting. The Corrective Action Framework can be applied to resolution efforts required by other federal statutes (e.g., Federal Financial Management Improvement Act of 1996, Improper Payments Information Act of 2002, Federal Information Security Management Act of 2002)."

Cause/Effect:

As a newly established organization, the CFPB continues to develop and implement its policies and procedures. CFPB currently maintains separate corrective action plans for both the OMB A-123 deficiencies and the external audit deficiencies (which may contain similar issues). Not maintaining a central deficiency log could duplicate or contain contradictory efforts to remediate issues and/or identify different responsible officials and the remediation activities may interfere with each other. Different corrective action plans may include different targeted milestones and completion dates.

Recommendations:

We recommend that CFPB management implement the following recommendations to improve the A-123 process:

- CFPB should revise policies and procedures to ensure that all CFPB findings (A-123 and external reviews and audits) are addressed in the Corrective Action Plans process that includes the appropriate accountability, monitoring, and communication. Some aspects of this process should include:
    - Identification – identify the appropriate underlying root cause of the deficiency;
    - Development – include actions steps that address the root cause;
    - Accountability – clearly identify and assign; and
    - Verification & Validation – formally verify successful implementation of the action plan throughout the lifecycle of the remediation.

Auditee Responses

We provided a draft of this report to the CFPB for review and comment. In a letter dated February 24, 2015, CFPB's Chief Financial Officer agreed with the two conditions identified in the report and concurred with our recommendations. The Chief Financial Officer's letter provided additional details on planned actions to address our recommendations and to enhance CFPB's budget processes and controls.

In addition, the letter highlighted actions taken to resolve the prior year findings and implement the recommendations included in the 2013 Independent Audit of Operations and Budget report issued by KPMG LLP on October 23, 2013.

The Chief Financial Officer's letter is included as Appendix I. Any additional information in the letter was not subjected to the auditing procedures applied in the performance audit objectives relative to CFPB.

Consumer Financial Protection Bureau

1700 G Street, N.W., Washington, DC 20552

February 24, 2015

Mr. Jorge Asef-Sargent
KPMG, L.L.P.
1801 K Street, NW
Suite 12000
Washington, DC 20006

Dear Mr. Asef-Sargent,

Thank you for the opportunity to review and comment on KPMG, L.L.P.'s draft report *"Consumer Financial Protection Bureau Independent Audit of Selected Operations and Budget,"* for Fiscal Year 2014 dated February 13, 2015. We have reviewed the draft audit report and concur with the draft recommendations contained therein.

We agree with the two identified Conditions and associated recommendations in the auditor's report, namely that A-123 deficiencies and external audit deficiencies are being tracked in separate deficiency logs and that a necessary budget adjustment was not identified by a program office or communicated appropriately to the OCFO during the mid-year budget review process. My colleagues are already preparing to implement the proposed Recommendations based on the findings from these audit focus areas. As you noted in your report, CFPB has also made excellent progress in remediating the Conditions from the 2013 Independent Audit conducted by your firm.

In an effort to enhance the Bureau's operations and budget and to address the opportunities to improve performance in the audit focus areas that you evaluated, the Bureau is reviewing existing budget and internal controls procedures and will continue to enforce policies and procedures or revise existing policies and procedures, as appropriate, to incorporate your recommendations. The following comments on each recommendation provide additional detail on our planned actions to enhance our processes and controls.

Thank you again for your review.

Sincerely,

Stephen J. Agostini

Stephen J. Agostini
Chief Financial Officer

consumerfinance.gov

Auditor Condition A: CFPB's Budget Process

Condition: *The Auditor noted that, based on the results of testing performed over a sample of eleven budget requests (e.g. investment estimates and current contracts) and relevant documentation that CFPB uses to track the status of such budget requests, there was one instance where the mid-year budget review did not identify adjustments needed to an investment estimate for the temporary childcare facility program. The FY 2014 approved investment for this temporary childcare facility was not modified during the fiscal year to account for changes to the estimate that occurred. The budgeted amounts were not modified by the program office during the mid-year review process to reflect that the full budgeted amount was not going to be needed due to delays in executing related agreements.*

CFPB Response: The CFPB agrees with the condition described above.

Auditor Recommendation(s): CFPB's Budget Process

Recommendation: *The Auditor recommends that CFPB management implement the following recommendations to improve controls over its budget formulation and execution function:*

- *The Office of the Chief Financial Officer (OCFO) continues to ensure that policies and procedures for the mid-year budget review process are enforced.*
- *Program offices should verify that any program changes (such as those occurring as a result of the contracting process) are communicated in a timely and appropriate manner to the OCFO as part of the mid-year budget review process so that necessary adjustments can be made at that time to accurately reflect the status of the program.*

CFPB Response: The CFPB agrees with the recommendation described above. The OCFO will continue to ensure that its policies and procedures, particularly with respect to the mid-year budget review process, continue to be enforced, and that program changes (such as those occurring as a result of the contracting process) are communicated in a timely and appropriate manner to the OCFO so that necessary adjustments can be made to accurately reflect the status of the program. While these actions should remediate the observed condition, it is worth noting that the CFPB also has in place additional controls to minimize the potential risks identified by the auditors. For example, as required by the Dodd-Frank Act, the CFPB takes into account amounts already available to the Bureau and has recently lowered the amounts to be requested from the Federal Reserve Board of Governors in order to reduce the Bureau's unobligated balances.

Auditor Condition B: Office of Management and Budget A-123

Condition: *The Auditor noted that while A-123 and other auditor findings are tracked, there is no central deficiency log for tracking and/or monitoring findings identified across CFPB. The auditor also noted that the current corrective action plan (CAP) process does not take into account issues that are identified from the A-123 process nor does the process include formal procedures to ensure successful implementation of the corrective action plans.*

CFPB Response: The CFPB agrees with the condition described above.

Auditor Recommendation(s) – Condition B: Office of Management and Budget A-123

Recommendation: *The Auditor recommends that CFPB revise policies and procedures to ensure that all CFPB findings (A-123 and external reviews and audits) are addressed in the Corrective Action Plans process that includes appropriate accountability, monitoring, and communication. This process should:*

- *Identify the appropriate underlying root cause of the deficiency;*
- *Include actions steps that address the root cause;*

- *Clearly identify and assign accountability for the Corrective Action Plan; and*
- *Formally verify successful implementation of the action plan throughout the lifecycle of the remediation.*

CFPB Response: The CFPB agrees with the auditor's recommendation to revise its policies and procedures with respect to the Corrective Action Plans (CAP) process to ensure that all CFPB findings (A-123 and external reviews and audits) are addressed in this process and that these revisions promote appropriate accountability, monitoring, and communication. During FY 2015, the CFPB will finalize and document these policy and procedural revisions, which should remediate the observed condition.

Auditor's Evaluation of Status of Corrective Actions Taken to Resolve the FY 2013 Audit Report Findings & Recommendations:

2013 Findings	2013 Finding Type	2014 Status
Controls Over the Contracting Officer Representative (COR) Function Need To Be Strengthened	Control Deficiency	**Partially Remediated**
Certain Monitoring Controls Over Budget Execution and Monitoring Need To Be Strengthened	Control Deficiency	**Remediated**
A need to respond timely to written inquiries related to contact center service level agreements (SLAs)	Noncompliance	**Remediated**
Development of a Continuity of Operations Plan (COOP) needed	Risk of Deficiency or Noncompliance	**Remediated**

CFPB Response: In response to the 2013 finding with respect to the COR function, CFPB agreed to and did implement all of the auditor's Recommendations. CFPB immediately reinforced detailed instructions related to contract administrative file maintenance to all of its CORs during the COR Monthly Roundtable series. CFPB management also circulated the auditor's FY 2013 audit report and briefed the CORs on the report's findings with an emphasis on refreshing instructions contained in the Procurement Career Development Handbook and reinforced all COR file maintenance protocols. The CFPB also agreed to increase the frequency of reviews of COR files maintained by the Bureau's CORs by incorporating periodic random COR file audits in lieu of a previous annual desk audit. These audits assessed COR compliance with CFPB policy requirements by auditing whether CORs maintain required documentation in accordance with CFPB's COR File Policy. KPMG reviewed the results of CFPB's COR file audits undertaken by CFPB's Office of Procurement to address the prior year Condition. KPMG noted that CFPB's audits continue to identify that documentation required by CFPB's COR File Policy is not being retained by some of the CORs in their official COR files. As such, CFPB proposes to establish a revised breakdown of findings during subsequent COR file reviews to include any missing item found as either a high risk or lower risk. High risk items shall include the COR designation letter, any negative performance reviews, and copies of contracts and modifications which impact funding. Other documentation will be lower risk. The purpose of the new breakdown structure is intended to identify items of greater importance, to ensure that these items are placed properly in the COR files, and to provide a system of measurement to mark improvement in future COR file audits.

consumerfinance.gov