



*Consumer Financial Protection Bureau
Independent Audit of Selected Operations
and Budget*

March 26, 2018

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EXECUTIVE SUMMARY

March 26, 2018

The Honorable Mick Mulvaney
Acting Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

Dear Mr. Mulvaney:

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 July 18, 2017 to February 28, 2018, and our results, reported herein, are as of March 26, 2018.

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 its policies and procedures established over budget formulation, execution, and monitoring; (2) monitoring and oversight of the interagency agreement (IAA) with third party service provider, the Bureau of Fiscal Service – Administrative Resource Center (BFS), relative to contract clauses in the IAA and CFPB policies and procedures; and (3) corrective actions taken to resolve the findings and recommendations included in CFPB’s *2016 Independent Audit of Selected Operations and Budget*, which was performed by KPMG.

As our report further describes, we identified a finding as a result of the work performed to meet our audit objectives related to untimely de-obligation of stale undelivered orders.



We recommend the Bureau:

- Identify potential further actions needed based on the analysis of open travel obligations more than one year old.
- Identify potential further actions needed based on the analysis of open obligations with periods of performance that have been expired for more than one year.
- Enforce program manager follow up activities to help ensure all contract information needed to de-obligate is obtained promptly during the obligation review process.
- Consider updating current policies and procedures over contract closeout to provide CORs with additional guidance to initiate quick closeout procedures when appropriate, to reduce administrative costs and to enable the timely de-obligation of excess funds.

Moreover, as a result of our procedures, we noted that the control deficiency reported in our prior year audit, related to asset management, had not been remediated. Although procedures to address the finding have been identified and drafted, they had not been finalized at the time of our report.

In addition, we also identified an observation, as presented in ***Appendix A – Additional Improvement Observations***. We determined that this observation is not a reportable finding. However, understanding this observation may be useful to CFPB for consideration in strengthening monitoring and oversight of the IAA with third party service provider, BFS.

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-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, dated July 15, 2016 and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, dated September 20, 2013).

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 consumer finance rules more effective, consistently and fairly enforce those rules, and empower consumers to take more control over their economic lives. 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, including 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; the Office of the Comptroller of the Currency; the Office of Thrift Supervision; the Federal Deposit Insurance Corporation; the National Credit Union Administration; the Federal Trade Commission, and the Department of Housing and Urban Development.

To accomplish its mission, the CFPB developed 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* – Works to empower consumers with the knowledge, tools, and capabilities they need to make better-informed financial decisions by engaging them in the right moments of their financial lives, while addressing the unique financial challenges faced by four specific populations.
- *Supervision, Enforcement, and Fair Lending* – Helps ensure compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate.
- *Research, Markets, and Regulations* – Conducts research to understand consumer financial markets and consumer behavior, evaluates whether there is a need for regulation, and determines the costs and benefits of potential or existing regulations.
- *Legal Division* – Helps ensure the Bureau’s compliance with all applicable laws and provides advice to the Director and the Bureau’s divisions.

- *External Affairs* – Manages the Bureau’s relationships with external stakeholders and ensures that the Bureau maintains robust dialogue with interested stakeholders to promote understanding, transparency, and accountability.
- *Operations Division* – Builds and sustains the CFPB’s operational infrastructure to support the entire organization and hears directly from consumers about challenges they face in the marketplace through their complaints, questions, and feedback.

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. Monitoring and Oversight of the interagency agreement with third party service provider, Bureau of Fiscal Service – Administrative Resource Center, relative to contract clauses in the IAA and CFPB policies and procedures; and
3. Corrective actions taken to resolve the findings and recommendations included in CFPB’s *2016 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’s 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 related to our prior year findings and recommendations.
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 requirements and technical guidance published by the Office of Management and Budget (OMB) and used by CFPB as leading practices¹ at the time of our audit (e.g., OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, dated July 15, 2016; OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, dated September 20, 2013; OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*); Interagency Agreement ARC-17-0008; and CFPB’s policies and procedures.
 4. *Findings and Recommendations* – The results of our audit work were the basis for our audit finding and recommendation. This finding and recommendation was communicated to CFPB management. We met with CFPB management to discuss our finding, recommendation, 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 with respect to each area.

CFPB’s Budget Process

Pursuant to the Dodd-Frank Act (“the Act”), the CFPB is funded principally by transfers from the Federal Reserve System, 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 2016 and 2017, the CFPB’s annual transfers from the Board totaled approximately \$565 million and \$602 million, respectively. The CFPB budget process consists of budget formulation (including budget submission and approval), budget execution, and budget monitoring (including reporting). The CFPB and the Federal Reserve have entered into an inter-agency agreement for the continued funding of the operations of the CFPB as set forth in Section 1017(b) of the Dodd-Frank Act. Under this agreement, the Federal Reserve will transfer funds quarterly to the CFPB based on notification by the Director of the amounts needed.

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 Office of Chief

¹ While not required to comply with OMB regulations, CFPB uses OMB requirements and guidance as indicators of leading practices.

Financial Officer (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. The program or division is required 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.

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.

To process budgetary transactions and enforce fund controls, CFPB has entered into an interagency 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 additional monitoring controls, such as monthly budget execution summary reports, quarterly OCFO reviews, and the mid-year budget review. In addition, the OCFO has established policies and procedures to perform a quarterly accrual analysis of individual obligations of \$100,000 or greater to determine if goods and services were received.

The CFPB has established and maintains an operating reserve to protect the Bureau's ability to carry out its authority and ensure the stability of its mission, programs, and ongoing operations in the event of unanticipated and unbudgeted one-time funding needs. This reserve is intended to provide a source of funds

internal to the CFPB for unexpected situations, such as sudden increases in expense, one-time unbudgeted expenses, unanticipated delays in funding, and uninsured losses. The CFPB's Operating Reserve Policy has been implemented in concert with its other governance and financial policies and is intended to support the goals and strategies contained in those related policies and in strategic and operational plans. Additionally, maintenance of such a reserve is expected to minimize or eliminate the need to request fund transfers from the Board of Governors of the Federal Reserve (Board) outside the predetermined schedule, which could place an undue burden on the Federal Reserve System.

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

- Interviewing CFPB key budget personnel within the individual division/program offices and the OCFO regarding formulation, execution, and monitoring;
- Reviewing the policies and procedures for budget formulation, execution, and monitoring;
- Obtaining a further understanding of the budget formulation, execution and monitoring process through discussions with management of the OCFO and select CFPB divisions;
- Reviewing documents used to support the budget formulation process;
- Comparing the CFPB budget formulation, execution, and monitoring process to the applicable requirements and guidance in OMB Circular A-11 as an indicator of leading practice;
- Reviewing documents to support the fact that the fiscal year 2017 budget was discussed with the program offices, was reviewed and approved by CFPB's Director, and was widely communicated throughout the organization;
- Obtaining an understanding of the budget execution and monitoring process through discussions with OCFO management and select CFPB offices;
- Reviewing CFPB's support for its mid-year budget review;
- Reviewing the user controls noted in the Bureau of Public Debt Service Organization Control report under Statement on Standards for Attestation (SSAE) No. 18: *Report on the Bureau of the Fiscal Service 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, 2016 to June 30, 2017* (BFS SSAE 18 report) issued by KPMG, which performed this SSAE No. 18 attestation for the Bureau of Public Debt; and
- Reviewing the CFPB analysis of the BFS SSAE 18 report.

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

CFPB's monitoring and oversight of the interagency agreement with third party service provider, Bureau of Fiscal Service – Administrative Resource Center

The CFPB maintains an IAA with the BFS to manage certain aspects of its financial operations and provide for CFPB's core financial management system needs. As a federal shared service provider, BFS provides a full range of administrative services for various federal agencies. In fiscal year 2017, the IAA's value was \$8.5 million. The agreement has been in place since the inception of the CFPB and has been renewed on an annual basis.²

The CFPB recognized that it could leverage the pre-existing financial management resources, systems, and information technology platforms from a shared service provider like BFS.³ A shared service model allows agencies to focus limited resources on enhancing mission support activities, better enabling an organization to service internal customers.⁴

CFPB receives four main services in its IAA with BFS: Financial Management, Human Resources, Procurement, and Travel:

- **Financial Management Services** – This service line provides for a full range of accounting services, including the core financial management system that CFPB uses for its financial reporting, Oracle Federal Financials. The Oracle system has traditional modules such as accounts payable, accounts receivable, payroll, and reporting functions. It serves as the accounting system of record for CFPB.
- **Human Resources Services** – This service line provides traditional payroll functions, including onboarding and off boarding of staff, personnel security, employee relations, employee benefits, and other reporting services.
- **Procurement Services** – This service line provides CFPB its procurement platform for financial obligations, PRISM. In addition to the PRISM system, BFS provides additional support with acquisition, contract administration and purchase card services.
- **Travel Services** – This service line provides CFPB's travel needs with access to E-Gov Travel Service, a government-wide, web-based travel management service.

² US Government Interagency Agreement, ARC-17-0008; Agreement Period 10/1/2016 to 9/30/2017

³ Financial Report of the Consumer Financial Protection Bureau, Fiscal Year 2017. November 15, 2017

⁴ Managing Change Expectations in a Shared Services Environment, Bureau of Fiscal Service – Administrative Resource Center, The Department of Treasury's Administrative Resource Center (ARC) as a Shared Services Provider

CFPB has incorporated these main services included in the IAA throughout its own policies and procedures. For example, with the procurement services, policies and procedures include references to when CFPB personnel work with CFPB or BFS contracting officers, or when additional CFPB reviews occur over BFS managed procurements.⁵ For the system platforms services in the agreement, CFPB personnel work directly in the Oracle system and PRISM system. Any technical assistance with these systems are provided by help desks managed by BFS, and staffed by BFS personnel.

Federal agencies engaged in these shared service efforts need to create the means to monitor and evaluate their efforts to enable them to identify areas for improvement.⁶ The Office of Federal Procurement Policy has established leading practices⁷ on effective monitoring and oversight, including:

- A contracting training program;
- Definition of the contracting officer technical representative's role and list of specific duties and tasks;
- A contract administration plan that specifies performance outputs of the work and describe the methodology to conduct inspections;
- A process for review of reporting requirements such as progress reports; and
- Use of customer satisfaction surveys.

These elements assist in meeting the *GAO Standards for Internal Control in the Federal Government (Green Book)* principle to have top-level reviews of actual performance and to establish and review performance indicators.⁸ In this regard, leading organizations⁹:

- Identify vendor risks and the level of monitoring necessary;
- Establish criteria and the program for evaluating vendor performance;
- Oversee vendor performance, focusing on outcomes versus just compliance with contract provisions;
- Follow up to ensure corrective action to address any shortfalls were taken by the vendor; and
- Continually communicate with the vendor regarding performance and expectations.

⁵ Consumer Financial Protection Bureau, Procurement Process Narrative, Fiscal Year 2017. July 12, 2017

⁶ GAO 06-15 ‘RESULTS-ORIENTED GOVERNMENT’ Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies. October 21, 2005

⁷ A Guide to Best Practices for Contract Administration, Office of Federal Procurement Policy (OFPP), October 1994

⁸ GAO Green Book principle 10.03

⁹ Best Practices in Government: Components of an Effective Contract Monitoring System, July 2003. State of Georgia, Department of Audits and Accounts, Performance Audit Operations Division

The CFPB has implemented a number of the elements noted above to help ensure it is providing monitoring and oversight of the IAA. The agreement itself is the first means of establishing the expectation for CFPB of delivery and quality from BFS. The agreement specifies the service descriptions, the roles and responsibilities of each party, and key performance metrics. The agreement also includes other standard contact terms, including period of performance, pricing per service, key contacts and approvers, as well as contract termination and dispute resolution provisions.

In addition to the role the agreement plays in supporting monitoring and oversight, CFPB performs additional reviews over BFS activities and work products. A review of contract files managed by BFS is conducted on a quarterly basis to help ensure PRISM information agrees with the contract file, and to help ensure that reporting for other federal requirements are accurate. On a monthly basis, contract actions in the system are reconciled to ensure all corresponding supporting documentation has been uploaded to PRISM. On a weekly basis, the Office of Procurement meets with BFS to discuss the status of various procurement items that are under their control. Lastly, to further support CFPB's monitoring of BFS' ability to perform the service, the OCFO reviews the BFS SSAE 18 report. The review includes an analysis of the BFS SSAE 18 report and its finding. An assessment of the potential impact of these findings on the services provided to CFPB are documented in a report.¹⁰

To obtain an understanding of the quality of the services provided, CFPB performs an annual customer satisfaction survey. CFPB sends out a customer satisfaction survey to users of BFS services throughout the CFPB. Since the CFPB has integrated BFS into its own standard procurement policies and procedures, the survey solicits feedback on not just the services provided by BFS but by the CFPB procurement office as a whole. The survey requests feedback on how well procurement is serving CFPB buying needs, who customers most contact for questions and the timeliness in responding, and whether CFPB's Procurement office sets clear expectations. After analyzing the feedback, a report is issued by the Office of Procurement to communicate the results of the survey and action plans for areas of improvement.¹¹ Based on the feedback received from CFPB personnel related to BFS, the Procurement office meets directly with BFS personnel during scheduled weekly meetings, and the feedback is shared to develop potential resolutions.

¹⁰ OIG-17-050 FINANCIAL MANAGEMENT Report on the Bureau of the Fiscal Service 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, 2016 to June 30, 2017, August 23, 2017

¹¹ Annual Client Satisfaction Report and Continuous Improvement Plan, Office of Procurement, December 2016

On an annual basis, the CFPB Contracting Officer Representative (COR) reviews the publicly available reports issued by BFS on its performance metrics and pricing plan commitments.¹² The COR reaches out the individual stakeholders within CFPB, which includes Human Resources, Office of the Chief Financial Officer, and Procurement, and compiles the results. The COR will use the BFS reports and the feedback from the stakeholders to assess service and negotiate pricing and set the expected budget for the following year's IAA.

Our methodology and approach for evaluating CFPB's monitoring and oversight of the interagency agreement with BFS included the following procedures:

- Conducted a kickoff and interviews with CFPB key personnel within the Procurement office and the OCFO;
- Reviewed the policies and procedures for procurement;
- Obtained an understanding of the process through discussions with management of CFPB's Procurement division;
- Reviewed documents used to support the monitoring and oversight of the IAA with BFS; and
- Compared the CFPB process to leading practices for contract monitoring.

Our procedures did not identify any findings related to CFPB's monitoring and oversight process over the IAA with BFS. However as a result of our procedures, we reported certain observations for CFPB's consideration to further enhance its monitoring and oversight in **Appendix A – Additional Improvement Observations**.

Corrective Actions Taken to Resolve the FY2016 Audit Report Findings and Recommendations

CFPB developed a corrective action plan to address the prior year finding included in the *2016 Independent Audit of Operations and Budget*¹³ report. Our methodology and approach for evaluating the corrective actions process included the following procedures:

- Reviewed the finding and related recommendation included in the *2016 Independent Audit of Operations and Budget*, which were defined as either a risk of deficiency or non-compliance or a deficiency in internal control;

¹² Administrative Resource Center, Quarterly Performance Metrics, FY 2018 1st Quarter, arc.publicdebt.treas.gov/files/pdf/fsarcperf_firstquarter2018.pdf; Administrative Resource Center, FY 2018 Pricing Transparency, arc.publicdebt.treas.gov/files/pdf/FY18_Pricing_Transparency.pdf

¹³ *2016 Independent Audit of Selected Operations and Budgets*, KPMG, December 16, 2016

- Obtained and reviewed the corrective action plan (CAP) developed by CFPB for the finding mentioned above; and
- Reviewed documentation supporting the CFPB actions specified in the CAP and how the actions taken address the prior year finding.

The table below captures the status of the prior year findings based on the results of our 2016 performance audit procedures:

2016 Findings	2016 Finding Type	2017 Status
Asset management annual inventory policies and procedures need to be reinforced and certain additional controls need to be adopted	Control Deficiency	Open The CFPB has drafted policies and procedures to address the finding. As of the date of our report, these policies and procedures had not been finalized.

Findings and Recommendations

Our 2017 performance audit identified one internal control deficiency¹⁴ finding, which is presented below. We discussed the results of the performance audit with CFPB's CFO, the audit focus area leads, and the COR for the audit contract. We held an exit conference on March 26, 2018.

A. Untimely de-obligation of stale obligations

Background and Condition:

The CFPB has established policies and procedures to monitor open obligations that have been completed or are determined no longer valid and to initiate contract closeout procedures. On a semi-annual basis, the OCFO, with the input from the Contracting Officer Representative (COR), conducts a review of its open obligations to verify if the obligations are still valid, if they can be de-obligated, or if a downward adjustment is necessary. After contract supplies and/or services have been rendered, received and paid for, the Office of Chief Procurement Office (OCPO), with input from the COR, completes the contract close-out procedures in accordance with Federal Acquisitions Regulation (FAR). Contract files using simplified

¹⁴ *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.”

acquisition procedures are considered closed when the OCPO receives all property and final payment. In accordance with CFPB policies and procedures, all other contract actions are closed as soon as practicable.

We judgmentally selected 25 transactions from the Undelivered Orders (UDO) subsidiary ledger as of July 31, 2017, of which 14 were travel related UDOs. Based on our procedures performed over the UDO transactions selected for test work, controls over the timely de-obligation of unsubstantiated obligations need to be improved. At the time of our review, we noted the following:

- Four UDO balances associated with non-travel transactions continued to be included in the list of open obligations even though the period of performance had expired and no activity had been registered for at least a year (Note: The period of performance for the oldest UDO balance had been expired for 3 years). The program office was unable to provide audit evidence that an effective follow up with the vendor had occurred to obtain the necessary documentation to substantiate the validity of the obligation.
- Four UDO balances associated with travel transactions continued to be included in the list of open obligations even though the requests for travel were at least 3 years old. (Note: In one instance, the travel request was 5 years old). The CFPB's did not follow established policies and procedures to review and de-obligate unsubstantiated travel related obligations.

Criteria:

- COO-CFP-006, *Policy for Recording Commitments and Obligations*, establishes policies and procedures for reviewing all unpaid obligations and de-obligate all unsubstantiated obligations.
- Bureau of Public Debt Service Organization Control report under SSAE No. 18: *Report on the Bureau of the Fiscal Service 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, 2016 to June 30, 2017* states: “ARC works with Customer Agencies to develop and implement processes to ensure the accuracy of their accounting information. This includes reviewing open commitment, obligation, expense accrual, customer agreement, and open billing document reports for completeness, accuracy, and validity. This review is conducted by the Customer Agencies to determine what action(s) is/are needed to adjust or remove any invalid items in ARC’s accounting records.”
- For leading practices, the Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* states: “Federal leaders and managers are responsible for establishing and achieving goals and objectives, seizing opportunities to

improve effectiveness and efficiency of operations, providing reliable reporting, and maintaining compliance with relevant laws and regulations.”

Cause and Effect:

CFPB has implemented controls over obligations that consider compliance with laws and regulations, and financial management reporting requirements. However, CFPB policies did not include procedures or guidance to assist in instances where program offices/vendors/travelers had not provided adequate responses to initiate a timely de-obligation of unsubstantiated obligations. As a result, some UDOs with expired periods of performance, and travel authorizations that were years old continued to remain open after the obligation review process. Stale obligations potentially prevent the release of additional funds for use by CFPB for other operational requirements and offer the opportunity for improper payments to be made against obligations that should have been closed out.

Recommendations:

To improve controls over its budget execution function with respect to UDOs, we recommend that CFPB management:

1. Identify potential further actions needed based on the analysis of open travel obligations more than one year old.
2. Identify potential further actions needed based on the analysis of open obligations with periods of performance that have been expired for more than one year.
3. Enforce program manager follow up activities to help ensure all contract information needed to de-obligate is obtained promptly during the obligation review process.
4. Consider updating current policies and procedures over contract closeout to provide CORs with additional guidance to initiate quick closeout procedures when appropriate, to reduce administrative costs and to enable the timely de-obligation of excess funds.

Appendix A – Additional Improvement Observations

Our current audit procedures did not identify any findings related to the CFPB's monitoring and oversight of the interagency agreement with third party service provider, the Bureau of Fiscal Service – Administrative Resource Center. However, as a result of our procedures, we reported certain observations for CFPB's consideration in further enhancing this process, which are included here. These observations are related to our 2017 audit of selected operations and budget, and are presented for the purpose of finalizing the results of that audit.

Our additional observation is as follows:

CFPB has implemented a number of policies and procedures to monitor and provide oversight of the services provided under the interagency agreement. These procedures are conducted by various individuals and groups within CFPB and not by a centralized group. CFPB's Office of Procurements may benefit from:

- a) Developing an IAA administration plan. The plan would include in one document the various reviews that are performed, who are the key individuals responsible for performing those reviews, and the purpose of those reviews. This document would allow for ready review of the monitoring and oversight implemented by CFPB; and
- b) Formally capturing the performance data used from the BFS performance indicators as they relate to CFPB. This information would allow for historic analysis of performance trends.

Appendix B – CFPB’s Management Response

Management Responses

We provided a draft of this report to CFPB management for review and comment. CFPB’s responses to our findings and recommendations are included in a letter from CFPB’s Chief Financial Officer dated March 26, 2018 (refer to Appendix B). CFPB’s responses were not subjected to the auditing procedures applied in the performance audit objectives relative to CFPB; accordingly, we expressed no opinion on these responses.



Consumer Financial
Protection Bureau

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

March 26, 2018

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 report "*Consumer Financial Protection Bureau Independent Audit of Selected Operations and Budget*" for Fiscal Year 2017 dated March 26, 2018. We have reviewed the audit report and concur with the recommendations contained therein. As noted in the report, CFPB has not remediated the finding from the 2016 Independent Audit conducted by your firm. We will continue our work to remediate the finding during the upcoming year.

We agree with the identified condition and accompanying recommendations in the 2017 audit report. My colleagues are already preparing to implement the proposed recommendations from the Budget audit focus area. The comments on the recommendations in this letter provide detail on planned actions to enhance the processes and controls in the Budget audit focus area.

In an effort to enhance the Bureau's operations and to address the performance improvement opportunities in the audit focus areas that KPMG studied, the Bureau will evaluate how best to incorporate the observed opportunities for improvement in the audit focus areas into the existing policies and procedures of these audit focus areas.

Thank you again for your review.

Sincerely,

A handwritten signature in blue ink, appearing to read "Elizabeth Reilly".

Elizabeth Reilly
Chief Financial Officer

Auditor's Condition 1: CFPB's Budget Execution Function with respect to Undelivered Orders (UDOs)

Condition: The Auditor noted that CFPB has implemented controls over obligations that consider compliance with laws and regulations, and financial management reporting requirements. However, CFPB policies did not include procedures or guidance to assist in instances where program offices/vendors/travelers had not provided adequate responses to initiate a timely de-obligation of unsubstantiated obligations. As a result, some UDOs with expired periods of performance, and travel authorizations that were years old continued to remain open after the obligation review process. Stale obligations potentially prevent the release of additional funds for use by CFPB for other operational requirements and offer the opportunity for improper payments to be made against obligations that should have been closed out.

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

Auditor's Recommendation(s) Related to Condition 1: CFPB's Budget Execution Function with respect to Undelivered Orders (UDOs)

Recommendations: The Auditor recommends that CFPB:

1. *Identify potential further actions needed based on the analysis of open travel obligations more than one year old.*
2. *Identify potential further actions needed based on the analysis of open obligations with periods of performance that have been expired for more than one year.*
3. *Enforce program manager follow up activities to help ensure all contract information needed to de-obligate is obtained promptly during the obligation review process.*
4. *Consider updating current policies and procedures over contract closeout to provide CORs with additional guidance to initiate quick closeout procedures when appropriate, to reduce administrative costs and to enable the timely de-obligation of excess funds.*

CFPB Response:

The CFPB agrees with the auditor's recommendations. In FY 2018, OCFO will continue to work with the Office of Procurement and program offices to refine the contract close-out process and other procedures to improve the efficiency of de-obligations.