



# Audit Report



OIG-12-057

DODD-FRANK ACT: Treasury Has Made Progress to Stand-up  
the Office of Financial Research

June 27, 2012

## Office of Inspector General

DEPARTMENT OF THE TREASURY



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## Abbreviations

CFPB	Consumer Financial Protection Bureau
DO	Departmental Offices, Department of the Treasury
FRB	Board of Governors of the Federal Reserve System
FSOC	Financial Stability Oversight Council
GPRA	Government Performance and Results Act
IT	information technology
LEI	Legal Entity Identifier
OFR	Office of Financial Research

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*The Department of the Treasury  
Office of Inspector General*

June 27, 2012

Michele Shannon  
Chief Operating Officer

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted July 21, 2010, created the Office of Financial Research (OFR) within the Department of the Treasury to support the Financial Stability Oversight Council (FSOC) and its member agencies.<sup>1</sup> This report presents the results of our audit of Treasury's activities to establish OFR as of April 2012. This audit was included in the *Office of Inspector General Fiscal Year 2011 Annual Plan*.

Our audit objective was to evaluate the effectiveness and status of Treasury's process to establish OFR in a manner that achieves its legislative mandate. We conducted our field work from June 2011 through April 2012. We interviewed OFR and Treasury management personnel responsible for establishing OFR and reviewed documentation provided by OFR. Appendix 1 contains a more detailed description of our objective, scope, and methodology.

In brief, we found that, in the 21 months since OFR was created, efforts to establish the office are still in progress. The officials responsible for establishing OFR initially engaged in high-level strategic and organizational planning and sought to hire key personnel. They also focused their attention on developing and facilitating the global acceptance of a universal Legal Entity Identifier

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<sup>1</sup> FSOC, also established by Dodd-Frank, is charged with identifying threats to the financial stability of the U.S., promoting market discipline, and responding to emerging risks to the financial stability of the U.S. financial system. FSOC consists of 10 voting members and 5 nonvoting members. Its members include the Secretary of the Treasury, chief executives of the federal financial regulators, certain state financial regulators, and an insurance expert. The OFR Director is a nonvoting member of FSOC.

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(LEI),<sup>2</sup> while leveraging Treasury's Departmental Offices (DO) to support OFR's administrative functions. In Summer 2011, after key operational personnel were brought on board, progress toward establishing a comprehensive implementation planning and project management process accelerated. This culminated in the approval of OFR's Project Management Methodology in January 2012, OFR's Strategic Framework in March 2012, and OFR's Strategic Roadmap in April 2012. While not finalized until well over a year after it was established, these documents and methodology, taken together, now provide OFR with a comprehensive implementation plan. This plan lays out the expected evolution of OFR's capabilities, reaching a mature state by fiscal year 2016. Concurrent with the development of its comprehensive implementation plan, OFR also began to develop its analytic and data support for FSOC, and its Research and Analysis Center has sponsored seminars and published two working papers on risk assessment topics.

We are recommending that OFR monitor its progress in carrying out the activities in the comprehensive implementation plan and take actions timely to address any slippages or otherwise make adjustments so as to achieve the objectives and timeframes in the plan.

In a written response, which is included as appendix 2, OFR provided its planned corrective action which we consider responsive to our recommendation.

## Background

Title I of Dodd-Frank created OFR to support FSOC and its members. The act details the types of support to be provided including data collection, research, and risk measurement and monitoring. OFR is expected to improve the quality of financial data available to policymakers and facilitate a more robust and sophisticated analysis of the financial system. OFR is to be headed by a Presidentially

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<sup>2</sup> LEI is being developed as the universal standard for identifying all parties to financial contracts. It is a key element in OFR's effort to understand and monitor risks to financial stability and meet its statutory mandate to develop and promote data standards.

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appointed, Senate-confirmed Director. On December 16, 2011, the President nominated Mr. Richard Berner to serve as OFR Director. Although the Director position currently remains vacant while Mr. Berner's confirmation is under consideration in the U.S. Senate, Mr. Berner is assisting in the stand-up of the OFR in his capacity as Counselor to the Secretary of the Treasury.

To execute its mission functions, OFR is in the process of standing up two primary operational centers: (1) a data center to acquire, validate, maintain, and distribute the data necessary to help regulators identify vulnerabilities in the financial system as a whole, and to develop and promote data standards; and (2) a research and analysis center to conduct, coordinate, and sponsor research to support and improve regulation of financial firms and markets. Dodd-Frank gives the OFR Director significant latitude in determining the methods used to achieve its legislative mandate. While Dodd-Frank does not set a deadline for the office to be fully stood up, it does set a deadline of July 21, 2012, for OFR's first required congressional reporting on the state of the U.S. financial system.

Dodd-Frank also requires the Board of Governors of the Federal Reserve System (FRB) to fund OFR's operations for an initial period of 2 years, through July 21, 2012.<sup>3</sup> After the initial funding period, OFR is to be funded by an assessment on large bank holding companies and non-bank financial companies.<sup>4</sup> Treasury issued a final rule establishing this assessment for bank holding companies and an interim final rule establishing the assessment for non-bank financial companies on May 21, 2012, with the first assessments to occur on July 20, 2012<sup>5</sup>.

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<sup>3</sup> Section 155 (c), Interim Funding.

<sup>4</sup> Section 155 (d), Permanent Self Funding, defines large bank holding companies and nonbank financial companies as bank holding companies with total consolidated assets of \$50 billion and nonbank financial companies supervised by FRB.

<sup>5</sup> Federal Register Volume 77, No. 98 (May 21, 2012), page 29884, Department of the Treasury, Assessment of Fees on Large Bank Holding Companies and Nonbank Financial Companies Supervised by the Federal Reserve Board To Cover the Expenses of the Financial Research Fund. The effective date for the final rule is July 20, 2012; the effective date for the interim final rule is July 20, 2012, with a due date for comments of September 18, 2012.

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## Results of Review

### **Progress toward Stand-Up Made, and Comprehensive Planning and Implementation Efforts are Underway**

Based on our review of planning documents and interviews with officials, we found that OFR developed initial high-level plans to identify the resources and infrastructure needed to achieve its legislative mandate. In the beginning, Treasury officials responsible for standing-up OFR were focusing on two areas:

- Promoting and obtaining global acceptance of an LEI system which is expected to provide the mechanism that will make it possible for regulators and market participants to understand more fully the interconnections and exposures among and across financial institutions and markets and thereby improve their ability to identify and mitigate threats to the financial system; and,
- Leveraging DO administrative support; specifically, human resources, information systems, procurement, budget and accounting processes, while supplementing them as needed with OFR-specific policies and procedures.

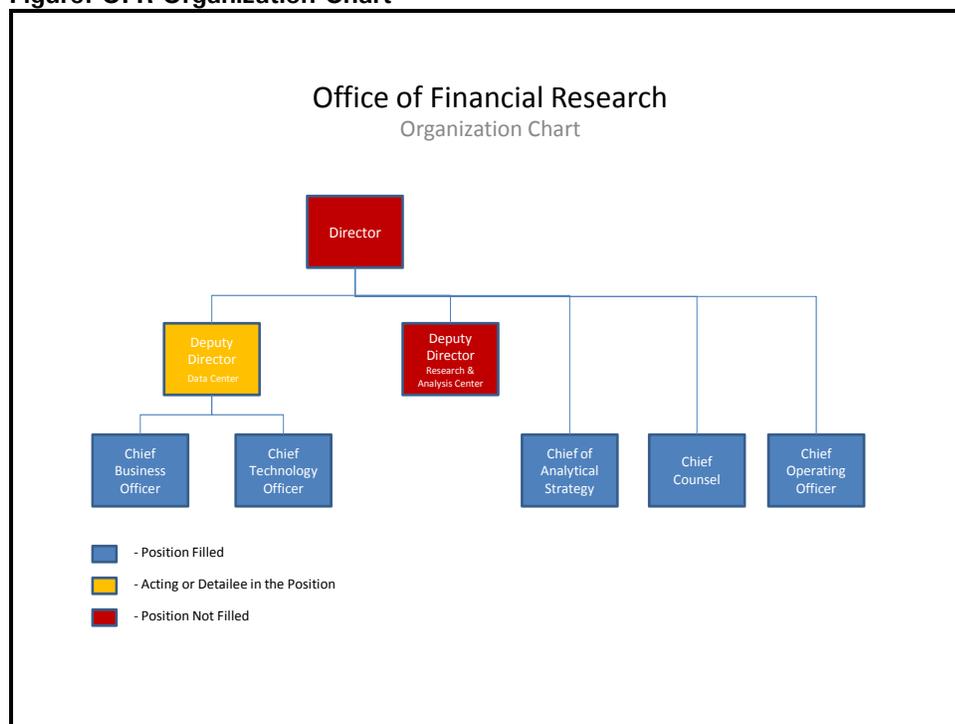
Progress has been made toward broader acceptance of an LEI and in standing up the administrative functions needed to support OFR. In addition, OFR has begun providing analytic and data support for FSOC and has produced a number of products through its Research and Analysis Center. However, OFR has just recently, in April 2012, finalized the longer-term component of its comprehensive implementation plan that lays out how it will stand up all of its activities and functions. The status of each OFR key operational component, as of the end of our field work, is discussed in the remainder of this report.

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## Organizational Structure and Human Resources

OFR has laid out an organizational structure that accounts for its mandated functional units and addresses its administrative needs. DO is currently providing OFR with human resources capabilities to support its staffing efforts. OFR is using existing DO practices where possible, but has also established OFR-specific human resource policies, where needed, including a uniform pay and classification system. According to officials, OFR projects that it will have 212 employees on-board by the end of fiscal year 2012. As of May 7, 2012, OFR had 78 employees on-board and filled 5 of its 8 executive positions. As of that date, one of the executives, the Chief Business Officer, was serving as the Acting Deputy Director of the Data Center.

**Figure: OFR Organization Chart**



Source: OFR

As noted previously, a nominee for the position of OFR Director has been announced. In the absence of a Director, OFR can perform its operational functions under the Treasury Secretary's authority.

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## Data Standards, Research, and Analysis

OFR is working with the FSOC and its member agencies, directly and through the FSOC Data Committee, to evaluate data requirements of the FSOC and work to deliver needed data and metrics. To this end, OFR is currently engaged in a long term project to inventory data that is purchased, collected, or derived by FSOC member agencies.

According to OFR's project tracking reports, the purchased data inventory has been completed, the collected data inventory is to be completed by August 2012, and the derived data inventory is to be completed by September 2013. OFR has prepared reports for FSOC consisting of metrics and indicators related to financial stability drawn from previous academic research.

OFR's Research and Analysis Center has established forums and networks to allow experts within and outside the regulatory system to contribute to OFR's mission. For example, on December 1 and 2, 2011, OFR hosted a conference entitled *The Macroprudential Toolkit: Measurement and Analysis* where regulators, academics, and industry representatives discussed issues related to systemic risk monitoring. OFR also collaborated with outside researchers to produce working papers on risk assessment topics and engaged the academic community in a series of OFR-sponsored research seminars.

OFR officials believe establishing a globally accepted LEI system is of great importance. Specifically, they expect that the acceptance of such a system will provide the mechanism that will make it possible for regulators and market participants to understand more fully the interconnections and exposures among and across financial institutions and markets and thereby improve their ability to identify and mitigate threats to the financial system. In November 2010, OFR published a statement of policy with a request for comment which defined the characteristics of a functional LEI system and OFR's intention to require the use of such a system in data reported to it.<sup>6</sup> While it was originally anticipated that such a system would be established and adopted by mid-2011, expectations have been revised

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<sup>6</sup> Federal Register Volume 75, No. 229 (Nov. 30, 2010), page 74146, Office of Financial Research; Statement on Legal Entity Identification for Financial Contracts.

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in light of challenges in gaining global support and acceptance for a universal LEI. OFR now expects global acceptance by mid-2012, with a phased rollout by transaction class and geographic region over a 2- to 5-year period.

### **Information Technology and Operational Processes**

OFR is scoping out its information technology (IT) and IT security infrastructure, operational and organizational governance processes, and stakeholder coordination and communication methods. These things are all necessary for OFR to meet its legislative mandate. OFR's current plan calls for a sequential strategy, beginning this fiscal year, where the foundations for OFR's capabilities with regard to data collection, analysis, research, and collaboration with FSOC member agencies are to be established. This is to be followed by a continued development of IT and business systems with the goal of satisfying immediate needs while reaching a mature state by fiscal year 2016.

OFR is leveraging DO's local area network and IT infrastructure, including office productivity systems and other software to perform work. At the time of our review, OFR had augmented these resources to establish a short term analytical environment. OFR officials told us that this analytical environment is maintained within a segregated portion of the DO network which has been secured in accordance with OFR-specific needs. The officials also told us that all systems used are maintained in accordance with DO security policies and procedures and that access to sensitive data is restricted to only those individuals whose job responsibilities require it.

### **Administrative Functions**

OFR entered into a reimbursable services agreement with the Treasury Franchise Fund's Administrative Resource Center at the Bureau of the Public Debt to provide its payroll, budgeting, finance and accounting, and procurement services. OFR officials told us that critical internal control procedures have been implemented. Written policies and procedures have been developed for the budget execution and acquisition process. DO policies and procedures are currently being used for other processes such as budget formulation and financial

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reporting. OFR is currently evaluating whether further OFR-specific procedures are required.

### **Budget and Performance**

OFR's fiscal year 2011 estimated budget was \$34 million. During the year, OFR made funding requests of \$13.1 million from FRB, of which \$11.3 million was spent or obligated as of September 30, 2011. OFR's fiscal year 2012 estimated budget is \$109.7 million, of which \$20.4 million was obligated or outlayed as of March 31, 2012. The fiscal year 2013 budget request shows OFR's estimated expenses at \$138.2 million.

OFR officials told us that they have not yet developed performance measures for the office. However, they plan to establish performance measures during fiscal year 2012 and to implement them beginning in fiscal year 2013. The importance of performance measures for gauging the progress and influencing the management of programs and projects at all levels of an agency is well recognized. Requirements and guidelines for such measures are in the Government Performance and Results Act of 1993 (GPRA) as amended by the GPRA Modernization Act of 2010.<sup>7</sup> Until performance measures are developed and implemented, OFR may be at a disadvantage in effectively communicating/demonstrating its accomplishments.

### **Assessments**

As noted above, on January 3, 2012, Treasury exposed a rule for public comment that would establish OFR's assessment methodology. Treasury issued a final rule establishing this assessment for bank holding companies and an interim final rule establishing the assessment for non-bank financial companies on May 21, 2012, with the first assessments to occur on July 20, 2012.

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<sup>7</sup> GPRA, Pub. L. No. 103-62; and GPRA Modernization Act, Pub. L. No. 111-352.

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## Comprehensive Implementation Plan

The development of a comprehensive implementation plan as early as possible in standing up a new organization and the regular measurement of progress against that plan are recognized best practices. OFR's planning activities have evolved over time. For over a year after it was established, OFR pursued high-level planning activities, but did not develop a comprehensive implementation plan or employ formal project tracking capability to help lay it out, control, and monitor the development and deployment of its infrastructure and operational processes.

The operations and project managers needed to develop a formal, detailed and comprehensive implementation plan, along with project tracking capability to monitor the progress, were not brought on board until the summer of 2011. Since then, notable progress has been made. A Program Management Office was established in August 2011 and it began to implement a project management methodology. That methodology was finalized and approved in January 2012.

OFR's Program Management Office provides documentation of key decisions regarding the design and execution of critical deliverables, infrastructure, processes, policies, and procedures. The methodology it is using also provides for documented approval of decisions by the appropriate level of management or governing committee. Among other things, the methodology requires that OFR define required workstreams, assign accountability for completion, and set the milestones and due dates against which progress is measured and reported. Beginning in late 2011, OFR developed project plans with workstreams, milestones, and project due dates for certain critical near-term projects, such as preparing the first mandated OFR annual report.<sup>8</sup>

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<sup>8</sup> Dodd-Frank, Sec. 154, Reporting Responsibilities, requires OFR to submit annual reports to Congress that assesses the state of the U.S. financial system, including (1) an analysis of any threats to the financial stability of the U.S., (2) the status of the efforts of OFR in meeting its mission, and (3) key findings from OFR's research and analysis of the financial system. The first report under this requirement is due July 21, 2012.

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OFR also developed a strategic plan which was approved by Treasury management in March 2012.<sup>9</sup> In April 2012, OFR finalized its longer-term Strategic Roadmap which lays out the expected evolution of OFR's capabilities through to the achievement of a mature state by fiscal year 2016. These documents, when supplemented with other planning documents and individual project plans produced by the Project Management Office, collectively provide OFR with a comprehensive implementation plan.

## Concluding Remarks and Recommendation

As an observation, Dodd-Frank required Treasury to establish four new offices: OFR, the Consumer Financial Protection Bureau (CFPB),<sup>10</sup> a Federal Insurance Office, and an Office of Minority and Women Inclusion within DO.<sup>11</sup> We and the FRB OIG performed a joint review of CFPB's implementation planning activities. We reported on July 15, 2011, about a year after Dodd-Frank became law, that CFPB identified and documented implementation activities that were critical to standing up the agency's functions and necessary to address certain Dodd-Frank requirements.<sup>12</sup> CFPB did successfully stand up its operations on July 21, 2011, in accordance with Dodd-Frank; an accomplishment that we attribute to its comprehensive planning and implementation process. While we recognize OFR's mission is an entirely new undertaking for Treasury whereas CFPB, in part, consolidated existing government functions and personnel under

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<sup>9</sup> OFR, *Strategic Framework Office of Financial Research FY 2012 - FY 2014*. OFR established five strategic goals consistent with its mandate defined in Dodd-Frank. These strategic goals are: (1) support the FSOC through the secure provision of high quality financial data and analysis needed to monitor threats to financial stability, (2) develop and promote data-related standards and best practices, (3) establish a center for excellence for research on financial stability and promote best practices for financial risk management, (4) provide the public with key data and analysis, while protecting sensitive information, and (5) establish the OFR as an efficient organization and a world-class workplace.

<sup>10</sup> Dodd-Frank established CFPB as an independent agency within, but autonomous from, the Federal Reserve System. Treasury was authorized to provide interim administrative services supporting CFPB before July 21, 2011.

<sup>11</sup> Dodd-Frank also required the Office of the Comptroller of the Currency to establish an Office of Minority and Women Inclusion. We plan to review the Federal Insurance Office and the Offices of Minority and Women Inclusion in the future.

<sup>12</sup> Treasury OIG and FRB OIG, *Review of CFPB Implementation Planning Activities*, FRB OIG 2011-03/OIG-11-088 (July 15, 2011)

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one agency, the CFPB experience underscores the benefit of comprehensive planning for mission-critical and administrative activities necessary to stand up a new organization.

While progress has been made in laying the foundation for OFR's operational capabilities, OFR took longer than might have been expected to implement a project management capability and finalize a comprehensive implementation plan. OFR's operational success will depend, in part, on its ability to effectively execute its plan.

Accordingly, we recommend that the Chief Operating Officer of OFR monitor the progress in carrying out the activities in the comprehensive implementation plan and take timely action to address any slippages or otherwise make adjustments so as to achieve the objectives and timeframes in the plan.

Management Response

OFR will continue to monitor progress in carrying out the activities in its comprehensive implementation plan. OFR also plans to establish performance measures during fiscal year 2012, and implement them beginning in fiscal year 2013.

OIG Comment

OFR's planned action is responsive to our recommendation.

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We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-0384 or James Lisle, Audit Manager, at (202) 927-6345. Major contributors to this report are listed in appendix 3.

Jeffrey Dye /s/  
Director, Banking Audits

The objective of this review is to determine the effectiveness of Treasury's process to establish the Office of Financial Research (OFR) in a manner which achieves the office's legislative mandates under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).

To achieve the audit objective, we developed criteria using the applicable Dodd-Frank sections and best practices derived from various reports prepared by consultants and the Government Accountability Office<sup>13</sup>. Using these criteria, we reviewed documentation provided by OFR pertaining to the stand-up of OFR and interviewed key personnel. We:

- reviewed planning documentation provided by OFR related to: human resources, budget and finance, procurement, data collection and analysis, information security, technology infrastructure, and assessment functions. We also reviewed documentation pertaining to OFR's efforts to establish globally accepted legal entity identifiers (LEI).
- interviewed OFR management and Treasury Departmental Offices (DO) personnel detailed to or coordinating with OFR. Specifically, we interviewed the Counselor to the Secretary, who is the nominee for OFR Director, and the following OFR officials; Chief Operating Officer; Associate Director, Program Management; Chief Technology Officer, who was serving as Acting OFR Deputy Director – Data Center and Chief Business Officer; and Management Lead (DO reimbursable support). We also interviewed the DO Chief Information Security Officer, the Treasury Deputy General Counsel, and the DO Chief Human Capital Officer.

We performed our audit field work from June 2011 through April 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those

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<sup>13</sup> Booz Allen Hamilton – Research and Analysis: Organizational Stand-Ups Lessons Learned and Key Insights (May 2010); and General Accountability Office – GAO-03-669, Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations (July 2003)

standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix 2  
Management Comments



OFFICE OF FINANCIAL RESEARCH  
DEPARTMENT OF THE TREASURY  
WASHINGTON, DC 20220

June 22, 2012

Mr. Jeffrey Dye  
Director, Banking Audits  
Office of Inspector General  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Mr. Dye:

I write in response to your June 1, 2012 letter in which you provide a draft of your Audit Report, *Progress toward Stand-Up Made, and Comprehensive Planning and Implementation Efforts are Underway* (Report). The Office of Financial Research (OFR) appreciates the important work of the Office of the Inspector General and your review of the effectiveness of the OFR's stand-up efforts. This letter provides the OFR's official comment to the Report, and describes the OFR's accomplishments and planning efforts to date.

As described in the Report, the OFR has made notable progress in the stand-up of the office. It has ramped up its hiring, advanced its institutional framework, established secure information technology and business systems, and published the Strategic Framework to guide its way forward in accomplishing its core research and data-related mandates.<sup>1</sup> With that progress, the OFR has begun to provide analytic and data-related support to the Financial Stability Oversight Council, launched a working paper series and seminar series for research on financial stability and risk management, and worked to achieve global acceptance of a Legal Entity Identifier to help regulators and market participants better identify and mitigate threats to the financial system. The OFR's first annual report to Congress on the activities of the office, due to be released in July, will also lay out a forward-looking agenda for the OFR in fulfilling its mandate.

The OFR agrees with the recommendation in your Report. We will continue to monitor our progress in carrying out the activities in the OFR's comprehensive implementation plan, and take timely action to address any slippages or otherwise make adjustments so as to achieve the objectives and timeframes in the plan. The OFR also plans to establish performance measures during fiscal year 2012, and to implement them beginning in fiscal year 2013. Thank you for your effort and assistance in conducting this audit. Again, we appreciate your important oversight role, and we look forward to working with your office in the future.

Sincerely,

Michele Shannon  
Chief Operating Officer

<sup>1</sup> <http://www.treasury.gov/initiatives/wsr/ofr/Documents/OFRStrategicFramework.pdf>.

Appendix 3  
Major Contributors to This Report

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James Lisle, Audit Manager  
Adelia Gonzales, Auditor  
Vicki Preston, Auditor  
Olivia Scott, Auditor  
Marco Uribe, Auditor  
Gregory Sullivan, Referencer

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