



June 13, 2016

The Honorable Richard Cordray
Director
Bureau of Consumer Financial Protection

Management Report: Improvements Needed in CFPB’s Internal Controls and Accounting Procedures

Dear Mr. Cordray:

On November 16, 2015, we issued our report containing our opinion on the fiscal years 2015 and 2014 financial statements of the Bureau of Consumer Financial Protection, known as the Consumer Financial Protection Bureau (CFPB).¹ Our report also included (1) our conclusion on CFPB’s compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements during fiscal year 2015 that we tested and (2) our opinion on the effectiveness of CFPB’s internal control over financial reporting as of September 30, 2015, including discussion of deficiencies identified in CFPB’s internal control over accounting for property, equipment, and software that collectively constituted a significant deficiency in CFPB’s internal control over financial reporting.²

The purpose of this report is to (1) present additional information regarding the significant deficiency we identified in our November 2015 financial audit report, along with related recommendations; (2) communicate other less significant deficiencies identified but not reported during our fiscal year 2015 audit; and (3) provide the status of our prior recommendations reported in our May 2, 2014, management report to CFPB (see enc. I).³

Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act,⁴ referred to as the Consumer Financial Protection Act of 2010, created CFPB. The act charged CFPB with regulating the offering and provision of consumer financial products or services under the federal consumer financial laws. The act also requires CFPB to annually prepare financial

¹GAO, *Financial Audit: Bureau of Consumer Financial Protection’s Fiscal Years 2015 and 2014 Financial Statements*, [GAO-16-96R](#) (Washington, D.C.: Nov. 16, 2015).

²A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A control deficiency 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, misstatements on a timely basis.

³GAO, *Management Report: Improvements Needed in CFPB’s Internal Controls and Accounting Procedures*, [GAO-14-455R](#) (Washington, D.C.: May 2, 2014).

⁴Pub. L. No. 111-203, Title X, 124 Stat. 1376, 1955-2113 (2010).

statements and GAO to audit these statements.⁵ The Full-Year Continuing Appropriations Act, 2011 also requires that GAO audit CFPB's financial statements.⁶

Results in Brief

During our audit of CFPB's fiscal years 2015 and 2014 financial statements, we identified deficiencies in CFPB's internal control over accounting for property, equipment, and software that collectively constituted a significant deficiency in CFPB's internal control over financial reporting. Specifically, we found that CFPB did not effectively design or implement controls to (1) reasonably assure accurate and timely classification and recording of software costs and (2) maintain ongoing accuracy and completeness of property and equipment inventory records. In addition, we identified deficiencies that we did not consider to be material weaknesses or significant deficiencies, either individually or collectively, but that nonetheless warrant CFPB management's attention. These control deficiencies are related to reviewing and approving financial statements.

This report makes five recommendations pertaining to the newly identified control deficiencies.

As of September 30, 2015, CFPB had completed corrective actions on two of the four recommendations from our prior management report that remained open at the beginning of our fiscal year 2015 audit. As a result, CFPB currently has seven financial audit-related GAO recommendations to address, consisting of the previous two open recommendations and the five recommendations we are making in this report. Enclosure I provides details on the status of CFPB's actions to address the open recommendations from our prior financial audits.

Scope and Methodology

As part of our audit of CFPB's fiscal years 2015 and 2014 financial statements, we evaluated CFPB's internal controls and tested its compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. We designed our audit procedures to test relevant controls over financial reporting, including those designed to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of CFPB's financial statements in accordance with U.S. generally accepted accounting principles (GAAP), and that assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the financial statements. As part of our audit, we evaluated the work performed and conclusions reached by CFPB management in its internal control assessment.⁷ A full discussion of our scope and methodology

⁵Pub. L. No. 111-203, Title X, § 1017(a)(5), 124 Stat. 1376, 1976-77 (2010), *classified* at 12 U.S.C. § 5497(a)(5).

⁶Pub. L. No. 112-10, § 1573(a), 125 Stat. 38, 138 (2011), *classified* at 12 U.S.C. § 5496a.

⁷CFPB's internal control over financial reporting is governed by criteria established under 31 U.S.C § 3512(c), commonly known as the Federal Managers' Financial Integrity Act, and applicable sections of the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. OMB Circular A-123 defines management's responsibility for internal control in federal agencies and establishes requirements for documenting, testing, and assessing the effectiveness of internal controls.

is included in our November 2015 report on our audit of CFPB's fiscal years 2015 and 2014 financial statements.⁸

We performed our audit of CFPB's fiscal years 2015 and 2014 financial statements in accordance with U.S. generally accepted government auditing standards. We believe that our audit provides a reasonable basis for our conclusion and recommendations in this report.

Significant Deficiency in Internal Control over Accounting for Property, Equipment, and Software

During our fiscal year 2015 audit, we continued to find that CFPB did not effectively implement internal controls over the recording of its property, equipment, and software, which led to significant, but not material, misstatements in its financial statements. Specifically, CFPB did not have effective procedures to properly distinguish between costs that should be recorded as capitalized software and those that should be recorded as gross costs (i.e., expensed) and did not timely detect and correct these errors in its records. In addition, we found that CFPB did not effectively maintain accurate inventory records to validate the existence of its recorded assets.

We first identified deficiencies in CFPB's controls over accounting for property, equipment, and software, which we collectively considered a significant deficiency, during our fiscal year 2013 financial statement audit.⁹ Consequently, in May 2014, we separately reported the details of the significant deficiency, along with recommendations for corrective actions.¹⁰ Based on these recommendations, with which CFPB concurred, it has taken actions over the past 2 years to improve the reporting of property, equipment, and software. For example, in fiscal year 2015, the Office of the Chief Financial Officer (OCFO) performed more-frequent (monthly instead of quarterly) reviews of property, equipment, and software transactions. However, control deficiencies remain.

Reasonably Assuring Accurate and Timely Classification and Recording of Software Costs

Background. CFPB's property, equipment, and software consist primarily of information technology equipment, furniture, internally developed software, and leasehold improvements. As of September 30, 2015, the property, equipment, and software balance totaled \$42.6 million, which is reported net of accumulated depreciation of \$14.5 million. Of the total \$42.6 million, the software costs represented \$13.1 million, net of accumulated depreciation. CFPB policy requires capitalizing property, equipment, and software with estimated useful lives of 2 years or more that meet the following criteria: leasehold improvements and equipment acquisitions, including furniture, of \$50,000 or more; bulk purchases¹¹ of \$250,000 or more of similar items; and internal-use software purchased or developed of \$750,000 or more. Other property items, normal repairs, and maintenance are charged to expense as incurred. CFPB capitalization

⁸[GAO-16-96R](#).

⁹GAO, *Financial Audit: Bureau of Consumer Financial Protection's Fiscal Years 2013 and 2012 Financial Statements*, [GAO-14-170R](#) (Washington, D.C.: Dec. 16, 2013).

¹⁰[GAO-14-455R](#).

¹¹Bulk purchases are capitalized when the items have the same basic utility and are composed of similar parts.

policy stipulates that on a quarterly basis,¹² the OCFO reviews property and equipment acquisitions and goods and services transactions of \$50,000 and greater to reasonably assure that purchased items and costs associated with internal-use software are appropriately classified as capitalized assets or operating expenses. As part of this review, OCFO uses a tracking schedule to monitor the stage of each internal-use software project. The tracking schedule is completed by the program offices, based on feedback from the vendor, and contains a list of ongoing internal-use software projects with the dates at which they enter each stage, which is key in determining the capitalization of costs.¹³ For internal-use software, federal government accounting standards provide that capitalized costs include the full cost incurred during the software development stage, and exclude costs associated with preliminary design and postimplementation services.¹⁴

Condition. In fiscal year 2015, we found that although OCFO increased its reviews of property, equipment, and software transactions from quarterly to monthly, many of the review findings related to classification errors remained unresolved at the time the financial statements were prepared. The errors contributed to misstated quarterly balances, and CFPB made significant adjustments after September 30, 2015, to fairly present its fiscal year 2015 financial statements. Significant adjustments following the initial review and approval of recorded transactions totaled \$6.9 million. This total consisted of \$1.7 million of gross costs that should have been capitalized as internal-use software and \$5.2 million capitalized as internal-use software that should have been recorded as gross costs. For example, as shown in table 1, one of the invoices we reviewed from March 2015, for a total amount of \$401,664, was initially classified as internal-use software for the amount of \$278,375 and as gross costs for the amount of \$123,289. During CFPB’s initial review, \$155,917 of the \$278,375 amount initially recorded as internal-use software was reclassified to gross costs. After further analysis, CFPB decided to record two additional reclassifications to reduce internal-use software and increase gross costs for the amounts of \$14,799 and \$6,983 to ultimately arrive at the correct totals of \$100,676 for internal-use software and \$300,988 for gross costs in August 2015, 5 months after the invoice date. As illustrated in table 1, these reclassifications, over several months, resulted in a significant shift between the amounts to be capitalized versus those to be expensed.

Table 1: Example of an Invoice with Multiple Reclassifications

Invoice amount: \$401,664

	Internal-use software	Gross costs
Initial classification	\$278,375	\$123,289
Reclassification after initial review	-155,917	155,917
Second reclassification	-14,799	14,799
Third reclassification	-6,983	6,983
Total	\$100,676	\$300,988

Source: Consumer Financial Protection Bureau Asset Schedule details. | GAO-16-522R

¹²In fiscal year 2015, the OCFO increased the frequency of these reviews from quarterly to monthly. However, its capitalization policy requiring the review had not been updated to reflect this change as of September 30, 2015.

¹³CFPB’s program offices initiate requests for goods and services.

¹⁴Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*, October 9, 1998, as amended.

Criteria. *Standards for Internal Control in the Federal Government* states that agencies should have controls in place to provide reasonable assurance that their financial transactions are recorded completely and accurately.¹⁵ The standards indicate that these controls should generally be designed to reasonably assure that ongoing monitoring occurs in the course of normal operations, such as managerial reviews of financial transactions, activities, comparisons, reconciliations, and other actions in the processing of financial transactions. In addition, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process, or life cycle, of a transaction or event from initiation and authorization through its final classification in summary records.

Cause. Classification errors occurred because (1) OCFO did not have sufficient information at the time of capitalization to timely determine how to record costs in its financial statements and (2) program offices did not communicate timely to OCFO the frequent changes in the tracking schedule used to monitor the stage of each project. Specifically, the invoices provided by the vendor did not identify costs by project, and CFPB's financial records were also not kept at the project level. Without this information, OCFO was unable to perform its review by matching the invoices to the internal-use tracking schedule to identify the stage of each project and subsequently determine whether the costs billed were properly capitalized or expensed. In turn, the significant amount of investigation required to determine the proper classifications hindered CFPB's ability to make the proper corrections prior to preparing its financial statements. In our May 2014 report, we recommended that CFPB design and implement procedures to improve the coordination between the Office of Procurement, other program offices, and OCFO at the time of capitalization. As noted in enclosure I, this recommendation is still open. Although OCFO made progress in fiscal year 2015 by communicating directly with the vendor to obtain assistance in matching invoices to the tracking schedule and to obtain a final determination as to the current stage of each project, the communication occurred late in the fiscal year, which led to many adjustments after September 30, 2015.

Effect. Until CFPB is able to prevent and timely resolve property, equipment, and software classification errors, the financial statements are at risk of being misstated quarterly and at year-end. This could prevent management from making informed decisions about the allocation of resources on a quarterly basis and provide misleading information to the users of the financial statements about CFPB's financial position.

Recommendations for Executive Action. To provide reasonable assurance that the property, equipment, and software transactions are properly tracked and capitalized or expensed as appropriate, we recommend that you take the following two actions:

- Direct the program offices to require vendors to provide detailed invoices with costs broken out by project.
- Direct the Chief Financial Officer to update OCFO's financial records to include costs by project.

¹⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). *Standards for Internal Control in the Federal Government* was revised in September 2014 and became effective beginning with fiscal year 2016. Our report addresses internal control deficiencies from our audit of CFPB's fiscal years 2015 and 2014 financial statements; therefore, we reference the November 1999 version of *Standards for Internal Control in the Federal Government* throughout our report.

Maintaining Ongoing Accuracy and Completeness of Property and Equipment Inventory Records

Background. A physical inventory of CFPB assets is conducted annually. The inventory is intended to track assets meeting one or more of the following criteria: cost \$5,000 or more, cost less than \$5,000 but susceptible to loss or theft, store sensitive information, and are bulk purchases of \$250,000 or more.¹⁶ The Facilities Office is responsible for managing and monitoring furniture, while the Office of Technology and Innovation is responsible for managing and monitoring all electronic equipment, such as copiers, notebooks, monitors, servers, cell phones, and digital cameras. Both offices are responsible for maintaining a master inventory file.¹⁷ Once the physical inventory is finalized, the Facilities Office and Office of Technology and Innovation are to compare the results to the master inventory file. OCFO maintains a separate asset schedule to track asset amounts to be recorded in the financial statements.¹⁸ OCFO is responsible for reconciling the master inventory file with its asset schedule to provide reasonable assurance of proper recording in the financial statements.

Condition. During our fiscal year 2015 audit, we found that certain information in the master inventory file maintained by the Office of Technology and Innovation was inaccurate and incomplete to reconcile the assets with the physical inventory and OCFO asset schedule. For example, when comparing information between the master inventory file and the physical inventory, we found asset information in the master inventory file, such as location, tag number, and cost, that was missing or inaccurate. Of the 58 assets we randomly selected for testing, 8 were not included in the master inventory file, 1 asset had the wrong tag number, 2 assets could not initially be located because of inaccurate recorded location, and 1 asset was not found.¹⁹

In addition, we could not trace information from the master inventory file to the OCFO asset schedule. For example, the master inventory file often did not include the invoice number or the cost of each individual asset. Instead, the master inventory file listed the total invoice cost for each asset. On the other hand, the OCFO asset schedule included the invoice number and total invoice costs but not a detailed breakout of the assets.

Criteria. *Standards for Internal Control in the Federal Government* provides that management must establish physical control to secure and safeguard vulnerable assets, including security for and limited access to assets such as inventories and equipment that might be vulnerable to risk of loss or unauthorized use.²⁰ Such assets should be periodically counted and compared to control records. In addition, all transactions need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed and maintained.

¹⁶The thresholds for assets that are included in the annual inventory are lower than the capitalization thresholds for assets that are recorded as property, equipment, and software in the financial statements. Therefore, there are assets that go through the annual inventory that are not capitalized.

¹⁷The master inventory file is intended to list all assets maintained by the respective offices. The offices add purchases to the master inventory file upon receipt and remove items upon disposal.

¹⁸OCFO's asset schedule contains a list of capitalized assets and accumulated depreciation, which is maintained by invoice number.

¹⁹For our inventory testing, we performed both floor-to-book and book-to-floor testing on a random selection of assets. The exceptions from our testing are not generalizable.

²⁰[GAO/AIMD-00-21.3.1](#).

Cause. The errors we found in the inventory records occurred because CFPB did not have sufficient controls in place and did not effectively implement certain existing control procedures that are intended to provide reasonable assurance that its master inventory file and OCFO asset schedule were accurate, consistent, complete, comparable, and updated on an ongoing basis. In fiscal year 2015, CFPB had an Asset Management Policy and Standard Operating Procedures in place requiring staff to collect key information (i.e., serial number, location, and acquisition price) for newly acquired assets and to update inventory records on an ongoing basis based on circumstances such as changes in location, loss, theft, and damage. However, our testing revealed errors that demonstrated that these procedures were not being consistently implemented. CFPB officials stated that training sessions were provided to employees for asset management and inventory purposes. However, the asset management training was only provided once by another agency to one employee in the Facilities Office, and CFPB was unable to provide us with the written materials used in this training session. In addition, the inventory training was provided to employees in the Office of Technology and Innovation just prior to beginning the electronic equipment inventory, and CFPB stated that no written materials were developed. Therefore, we were unable to verify whether the training sessions provided were adequate and consistent with the Asset Management Policy and Standard Operating Procedures. Although OCFO is responsible for reconciling the asset schedule and the master inventory file, it was unable to do so given the errors we found in the inventory records. CFPB did not have written procedures in place that required communication and coordination between the Office of Technology and Innovation and OCFO to provide reasonable assurance that the records maintained by both divisions were accurate, consistent, complete, and comparable for inventory and accounting purposes.

Effect. Inaccurate and incomplete inventory records created challenges in determining the property and equipment amounts to be recorded in the financial statements. Because the master inventory file did not reconcile to the OCFO asset schedule, CFPB could not match 156 of the 475 assets included in the master inventory file to related invoices. Consequently, CFPB could not initially determine the costs to be recorded in the financial statements. CFPB developed cost estimates for the 156 assets that could not be matched to an invoice. We reviewed these estimates and determined that they were not reasonable. Accordingly, CFPB decreased its property and equipment balance by \$1.7 million to provide reasonable assurance that the financial statements were fairly presented in all material respects. Inaccurate inventory records increase the risk of loss of physical assets and misstatement in the financial statements.

Recommendations for Executive Action. We recommend that you take the following two actions:

- Direct the Office of Technology and Innovation's Chief Information Officer to develop and document training materials that are consistent with CFPB's policies and procedures and provide training to employees, on a recurring basis, on how to conduct inventory of electronic equipment and how to update and maintain accurate inventory records.
- Direct the Chief Financial Officer and Chief Information Officer to develop and implement procedures that require coordination between the OCFO and the Office of Technology and Innovation to provide reasonable assurance that the records maintained by both divisions are accurate, consistent, complete, and comparable for inventory and accounting purposes.

Other Deficiencies

Reviewing and Approving Financial Statements

Background. While CFPB is ultimately responsible for the contents of its financial statements, it has entered into an agreement with the Department of the Treasury's (Treasury) Bureau of the Fiscal Service (FS) for assistance in preparing the financial statements. FS performs monthly closing activities and prepares the financial statements on behalf of CFPB. To provide reasonable assurance that financial statements are based on accounting principles that are applied consistently from period to period, and that the financial statements and related note disclosures contain all of the information needed for fair presentation in accordance with GAAP, FS uses guidance promulgated by Treasury and the Office of Management and Budget for the preparation of financial statements and note disclosures. OCFO is responsible for reviewing the financial statements and note disclosures prepared by FS and documenting its approval by signing the Financial Statement Review/Approval Checklist for CFPB. In addition, OCFO completes the *Financial Audit Manual (FAM) 2010, Checklist for Federal Accounting* and the *FAM 2020, Checklist for Federal Reporting and Disclosures*, which is intended to provide reasonable assurance that the financial statements are prepared in accordance with GAAP and note disclosures are adequate.²¹

Condition. During fiscal year 2015, we identified several issues with CFPB's draft Annual Financial Report that were not deemed material. These included (1) incorrect reporting of Freedom of Information Act (FOIA) fees, (2) a negative total in the Balance Sheet, and (3) inadequate disclosures. For example, in fiscal year 2015, CFPB changed its presentation of FOIA fees. However, CFPB did not revise its financial statements and related note disclosures to reflect the change and erroneously reported FOIA fees in multiple statements and note disclosures.

Criteria. *Standards for Internal Control in the Federal Government* provides that agencies should have controls in place to provide reasonable assurance that their financial transactions are recorded completely and accurately.²² The standards indicate that management should perform ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Cause. These errors occurred because CFPB did not have effective review and approval controls in place to provide reasonable assurance that the financial statements were prepared in accordance with GAAP and note disclosures were adequate. Although CFPB's Financial Statement Review/Approval Checklist outlines specific steps, such as identifying relationships and individual items that appear to be unusual and comparing relationships among elements in the financial information, CFPB's review of the checklist did not document the negative total in the Balance Sheet. In addition, CFPB's policies and procedures do not require OCFO to complete the FAM 2010 and 2020 checklists at fiscal year-end. While CFPB completed the checklists as of June 30, 2015, they were not updated as of September 30, 2015. Some of the changes made to the financial statements closer to year-end, such as the presentation of FOIA fees, did not exist on June 30, 2015, and therefore would not have been detected.

²¹GAO, *Financial Audit Manual*, vol. 3, [GAO-07-1173G](#) (Washington, D.C.: Aug. 28, 2007).

²²[GAO/AIMD-00-21.3.1](#).

Effect. Ineffective review procedures as well as lack of detailed guidance to ensure continual monitoring increase the risk that future errors may not be detected and corrected in time to prevent misstatements in the financial statements.

Recommendation for Executive Action. We recommend that you direct the Chief Financial Officer to take the following action:

- Design and implement effective procedures over the preparation of CFPB financial statements and note disclosures, including procedures such as completing the FAM 2010 and 2020 checklists at fiscal year-end, to provide reasonable assurance that the financial statements as of fiscal year-end are prepared in accordance with GAAP and note disclosures are adequate.

Status of Prior Audit Recommendations

During our audit of CFPB's fiscal year 2015 financial statements, we found that CFPB took sufficient action to address two of the four recommendations from our prior management report that remained open at the beginning of our fiscal year 2015 audit, and we now consider those recommendations closed.²³ As shown in enclosure I, the two recommendations that remain open as of the end of our fiscal year 2015 financial statement audit relate to OCFO's review process and coordination efforts to ensure property, equipment, and software transactions are properly capitalized or expensed as appropriate. CFPB took action to address these two recommendations, but as discussed in this report, we continued to find deficiencies that resulted in significant adjustments to CFPB's property, equipment, and software balance and recorded gross costs as of and for the fiscal year ended September 30, 2015. We will continue to monitor CFPB's progress in addressing our recommendations as part of our audit of CFPB's fiscal year 2016 financial statements.

Agency Comments and Our Evaluation

In its written comments, reprinted in enclosure II, CFPB stated that it agreed with the recommendations we made in our report and has implemented or is in the process of implementing actions to address the issues we identified. CFPB cited a number of such actions, including more frequent reconciliations between the asset inventories and financial records, interim testing of asset inventories, additional training to employees on conducting inventories and maintaining inventory records, working with program offices and vendors to enhance the financial reporting and proper classification of software, and reviewing current procedures for further enhancements to ensure proper review of the financial statements. In addition, CFPB stated that it is dedicated to upholding its fiscal responsibilities and ensuring that proper management oversight and controls are implemented to minimize risk. We will evaluate CFPB's actions for addressing the deficiencies identified in this report as part of our fiscal year 2016 audit.

* * * * *

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on these recommendations. You should submit your statement to the Senate Committee on Homeland Security and

²³[GAO-14-455R](#).

Governmental Affairs and to the House Committee on Oversight and Government Reform within 60 days of the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report. Furthermore, to ensure that GAO has accurate, up-to-date information on the status of your agency's actions on our recommendations, we request that you also provide us with a copy of your agency's statement of actions taken on open recommendations. Please send your statement of actions to me at malenichj@gao.gov or Nina M. Rostro, Assistant Director, at rostron@gao.gov.

We are sending copies of this report to the Chair of the Federal Reserve, the Inspector General of the Board of Governors of the Federal Reserve System, the Director of the Office of Management and Budget, interested congressional committees and members, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

We acknowledge and appreciate the cooperation and assistance provided by CFPB officials and staff during our audits of CFPB's fiscal years 2015 and 2014 financial statements. If you or your staff have any questions about this report, please contact me at (202) 512-3406 or malenichj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure III.

Sincerely yours,

A handwritten signature in cursive script that reads "J. Lawrence Malenich".

J. Lawrence Malenich
Director
Financial Management and Assurance

Enclosures – 3

Enclosure I: Status of Recommendations from GAO’s Fiscal Year 2013 Management Report¹

Audit area	Description	Status of corrective action	
		Completed	Open
Year-end accounts payable accruals	1. Develop detailed guidance and provide training for contracting officer representatives (COR) to further assist them in identifying and estimating accruals, including examples of expenses that should and should not be accrued at the end of an accounting period and how to calculate amounts to be accrued.	Yes	No
	2. Strengthen the design and implementation of control procedures regarding the review of the accounts payable estimates to include variance analysis of calculations and comprehensive review of obligating documents, invoices, and the COR’s accrual calculations.	Yes	No
Recording of property and equipment	3. Strengthen the design and implementation of control procedures to require, as part of the Office of the Chief Financial Officer’s quarterly review procedures, review of underlying supporting documents, including tracking schedules, invoices, and obligating documents, to ensure that property and equipment transactions are properly identified and capitalized or expensed as appropriate.	No	Yes
	4. Design and implement control procedures that require coordination between the Office of Procurement and other program offices at the time of capitalization to ensure that property and equipment costs, including costs associated with internal-use software, are properly capitalized or expensed as appropriate.	No	Yes

Source: GAO analysis of Consumer Financial Protection Bureau data. | GAO-16-522R

¹GAO, *Management Report: Improvements Needed in CFPB’s Internal Controls and Accounting Procedures*, [GAO-14-455R](#) (Washington, D.C.: May 2, 2014).

Enclosure II: Comments from the Consumer Financial Protection Bureau



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

May 27, 2016

Mr. J. Lawrence Malenich
Director
Financial Management and Assurance
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Mr. Malenich,

We have received a copy of your draft *Management Report: Improvements Needed in CFPB's Internal Controls and Accounting Procedures*, covering the Consumer Financial Protection Bureau's (CFPB) financial statement audit as of September 30, 2015. We appreciate the cooperation of the Government Accountability Office (GAO) during the CFPB's annual financial statement audit, and we recognize the significant work you are doing to help us improve the performance, transparency and accountability of the Bureau.

The CFPB is proud that we received an "unmodified" or "clean" opinion of the financial statements. GAO however identified one significant deficiency in CFPB's internal control over accounting for property, equipment, and software. GAO provided recommendations for the significant deficiency. We concur with the draft recommendations from GAO intended to improve management's oversight and controls as well as to minimize risk to the Bureau.

Since the conclusion of the audit in November 2015, CFPB has implemented or is in the process of implementing actions that address the significant deficiency identified by GAO during the audit. Such actions include more frequent reconciliations between the asset inventories and financial records, interim testing of asset inventories, additional training to employees on conducting inventories and maintaining inventory records, and working with program offices and vendors to enhance the financial reporting and proper classification of software. We will continue to implement corrective actions to resolve and mitigate the significant deficiency identified.

GAO also provided a recommendation for other deficiencies identified in the review and approval of the financial statements that were not considered material weaknesses or significant deficiencies. While the issues identified were immaterial to the financial statements, we are also reviewing our current procedures for further enhancements to ensure the proper review of the financial statements.

The CFPB is dedicated to upholding our fiscal responsibilities and ensuring that proper management oversight and controls are implemented to minimize risk to the Bureau. We have found that the GAO audit process is especially helpful and important to our work in this area.

Thank you again for the opportunity to comment on the draft report and for the valuable work that you and your staff are doing with us.

Sincerely,



Richard Cordray
Director

Enclosure III: GAO Contact and Staff Acknowledgments

GAO Contact

J. Lawrence Malenich, (202) 512-3406 or malenichj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Nina M. Rostro (Assistant Director), Sophie Geyer, and Bradford Neumann made key contributions to this report.

Enclosure IV: Accessible Data

Text of Enclosure II: Comments from the Consumer Financial Protection Bureau

Page 1

Consumer Financial Protection Bureau

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

May 27, 2016

Mr. J. Lawrence Malenich

Director

Financial Management and Assurance

U. S. Government Accountability Office

441 G Street, NW

Washington, DC 20548

Mr. Malenich,

We have received a copy of your draft Management Report: Improvements Needed in CFPB's Internal Controls and Accounting Procedures, covering the Consumer Financial Protection Bureau's (CFPB) financial statement audit as of September 30, 2015. We appreciate the cooperation of the Government Accountability Office (GAO) during the CFPB's annual financial statement audit, and we recognize the significant work you are doing to help us improve the performance, transparency and accountability of the Bureau.

The CFPB is proud that we received an "unmodified" or "clean" opinion of the financial statements. GAO however identified one significant deficiency in CFPB's internal control over accounting for property, equipment, and software. GAO provided recommendations for the significant deficiency. We concur with the draft recommendations from GAO intended to improve management's oversight and controls as well as to minimize risk to the Bureau.

Since the conclusion of the audit in November 2015, CFPB has implemented or is in the process of implementing actions that address the significant deficiency identified by GAO during the audit. Such actions include more frequent reconciliations between the asset inventories and financial records, interim testing of asset inventories, additional training to employees on conducting inventories and maintaining inventory records, and working with program offices and vendors to enhance the financial reporting and proper classification of software. We will continue to implement corrective actions to resolve and mitigate the significant deficiency identified.

GAO also provided a recommendation for other deficiencies identified in the review and approval of the financial statements that were not considered material weaknesses or significant deficiencies. While the issues identified were immaterial to the financial statements, we are also reviewing our current procedures for further enhancements to ensure the proper review of the financial statements.

Page 2

The CFPB is dedicated to upholding our fiscal responsibilities and ensuring that proper management oversight and controls are implemented to minimize risk to the Bureau. We have found that the GAO audit process is especially helpful and important to our work in this area.

Thank you again for the opportunity to comment on the draft report and for the valuable work that you and your staff are doing with us.

Sincerely,

Richard Cordray

Director