



Office of Inspector General

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

MEMORANDUM

DATE: January 8, 2024

TO: Jeff Riedel
Chief Information Officer
Board of Governors of the Federal Reserve System

FROM: Michael VanHuysen 
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Memorandum Report 2024-MO-B-001: *The Board Should Provide Staff With Guidance on Controlled Unclassified Information*

Executive Summary

In October 2022, we initiated an evaluation to assess the Board of Governors of the Federal Reserve System intelligence programs’ control environment for its core business processes—including intelligence gathering, review, and dissemination; information security oversight; and insider threat program administration—to identify potential opportunities for improvement. During the scoping phase of the evaluation, we discovered that the Board’s *Information Classification and Handling Standard* does not provide guidance for Board divisions on safeguarding controlled unclassified information (CUI), even though several divisions routinely handle such information.

This memorandum report contains recommendations related to updating the *Information Classification and Handling Standard* to describe and provide expectations for safeguarding CUI and updating associated training materials. In its response to our draft report, the Board concurs with our recommendations and outlines actions that will be taken to address them. We intend to monitor the Board’s progress in implementing our recommendations.



Office of Inspector General
 Board of Governors of the Federal Reserve System
 Consumer Financial Protection Bureau

Recommendations, 2024-MO-B-001, January 8, 2024

The Board Should Provide Staff With Guidance on Controlled Unclassified Information

Finding: The Board Should Update the *Information Classification and Handling Standard* to Include Guidance on CUI

Number	Recommendation	Responsible office
1	Update the Board’s <i>Information Classification and Handling Standard</i> to <ol style="list-style-type: none"> a. describe the types of CUI that Board staff may commonly receive from other federal agencies. b. document existing Board expectations for CUI lacking adequate safeguarding instructions. 	Division of Information Technology
2	Update annual training materials to increase CUI safeguarding awareness.	Division of Information Technology

Objective, Scope, and Methodology

We initiated this evaluation in October 2022 to assess the Board intelligence programs' control environment for its core business processes—including intelligence gathering, review, and dissemination, also referred to as the *intelligence function*; information security oversight; and insider threat program administration—to identify potential opportunities for improvement. During the scoping phase, we interviewed divisions that work closely with the intelligence function to discuss how those divisions handle and safeguard classified national security information (CNSI) and CUI. We also interviewed divisions that determined and implemented the Board's information handling and safeguarding practices, including the Legal Division and the Division of Information Technology.

In addition, we reviewed relevant federal authorities on CUI handling and safeguarding, as well as other applicable standards and guidance, such as the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*. We conducted our scoping phase for this evaluation from October 2022 through October 2023 in accordance with *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

Background

Controlled Unclassified Information

After the September 11 terror attacks, *The 9/11 Commission Report* recommended the horizontal sharing of intelligence information in a way that transcends individual agencies. Further, the 2009 Presidential Task Force recommended expanding that sharing to all government information that requires protection but does not fall under the definition of CNSI.

In November 2010, Executive Order 13556, *Controlled Unclassified Information*, established the CUI program, which created a high-level framework for managing non-CNSI executive branch information that requires safeguarding.¹ Executive Order 13556 tasked the U.S. National Archives and Records Administration (NARA) with approving all categories of CUI and creating policies and procedures concerning marking, safeguarding, disseminating, and decontrolling CUI.

Title 32, part 2002, of the *Code of Federal Regulations*, effective as of November 2016, establishes rules for designating, handling, and decontrolling information that qualifies as CUI. According to this regulation, before the CUI program, federal agencies often handled CUI using ad hoc, agency-specific policies, procedures, and marking protocols. This patchwork approach resulted in federal agencies marking and handling this information inconsistently, implementing unclear or unnecessarily restrictive disseminating policies, and creating obstacles to information sharing.

The Board has determined that it is not required to comply with NARA's CUI requirements because section 10 of the Federal Reserve Act gives the Board broad authority over its internal management. As a

¹ Exec. Order No. 13,556 (November 4, 2010).

result, the Board did not modify its existing *Information Classification and Handling Standard* to include CUI.

Board Information Handling Guidance

The Division of IT issued an updated *Information Classification and Handling Standard* in March 2022. This standard outlines the specific handling and safeguarding requirements for the Board's printed and digital information. This standard also includes details on safeguarding and storage standards based on the sensitivity of the information and defines seven levels of sensitivity. Board staff must assign a Board sensitivity level when staff create information or obtain nonpublic information from an outside source. These sensitivity levels are based on the potential adverse effects or negative consequences of publicly disseminating the information and are mapped to the National Institute of Standards and Technology's Special Publication 800-53, Revision 5, *Security and Privacy Controls for Information Systems and Organizations*.

While the *Information Classification and Handling Standard* focuses on Board-created information, it also acknowledges that some information obtained by the Board may be subject to separate or more stringent requirements established under a contract or by applicable law.

Finding: The Board Should Update the *Information Classification and Handling Standard* to Include Guidance on CUI

We found that the Board's *Information Classification and Handling Standard* does not provide guidance on the safeguarding of CUI. During our scoping phase, we interviewed officials from five Board divisions that receive CUI with varying frequency and safeguard it using various methods. None of the officials we spoke with from these five divisions were aware of any Board-issued CUI guidance, and several Board officials expressed concern about a lack of Board guidance on CUI. Specifically, one official indicated that the lack of CUI guidance is a potential gap in Board guidance. Officials from multiple Board divisions agreed that including some information on CUI safeguarding in Board guidance and training would be helpful.

GAO's *Standards for Internal Control in the Federal Government* states that management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

A Board official involved with updating the Board's *Information Classification and Handling Standard* noted that CUI guidance had never been requested and that divisions should follow the handling and safeguarding instructions provided by the transmitting federal agency. However, other federal agencies may send CUI to Board staff without fully detailing the appropriate handling and safeguarding instructions. We were informed that Board employees are instructed to contact the transmitting federal agency to obtain further safeguarding instructions in such instances. However, we were unable to locate such instructions in a Boardwide information policy or annual training.

Although the Board has determined it is not required to comply with NARA's CUI requirements, we noted that at least five Board divisions regularly handle CUI. Without adequate guidance that raises CUI awareness and provides additional safeguarding instructions, Board staff may unknowingly mishandle information that is entrusted to them by other federal agencies. Moreover, the lack of guidance addressing this topic increases the risk that CUI may be mishandled.

Recommendations

We recommend that the chief information officer

1. Update the Board's *Information Classification and Handling Standard* to
 - a. describe the types of CUI that Board staff may commonly receive from other federal agencies.
 - b. document existing Board expectations for CUI lacking adequate safeguarding instructions.
2. Update annual training materials to increase CUI safeguarding awareness.

Management Response

In response to our draft report, the Division of IT concurs with our recommendations. The response acknowledges that Board staff can be provided additional guidance around handling information from other agencies. The response indicates that progress has already been made in addressing the recommendations, and the Division of IT plans to publish the updated *Information Classification and Handling Standard* by the end of January 2024.

OIG Comment

The planned actions described by the Division of IT appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Closing

We are issuing this memorandum report separately from the *Results of the Evaluation of the Board's Intelligence Program*, which had a limited distribution because of the sensitivity of the information it contained.² This memorandum report contains recommendations designed to document expectations for Board staff who commonly receive CUI from other agencies.

We provided you with a draft of our memorandum report for review and comment, and your response is included as an attachment. We will monitor the Board's progress in addressing our recommendations.

² Office of Inspector General, *Results of Scoping of the Evaluation of the Board's Intelligence Programs*, [OIG Report 2023-MO-B-019R](#), December 11, 2023.

We appreciate the cooperation we received from Board personnel during the evaluation. Please contact me if you would like to discuss this memorandum report or any related issues.

Attachment

cc: Patrick J. McClanahan
Winona H. Varnon
Jean Anderson
Ann E. Misback
Ricardo A. Aguilera
Cheryl Patterson
Kofi Spong

Attachment

Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

DIVISION OF
INFORMATION TECHNOLOGY

Mr. Mark Bialek
Office of Inspector General
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Mark:

We have reviewed your report entitled "The Board Should Provide Staff With Guidance on Controlled Unclassified Information." The report evaluates the Board of Governors of the Federal Reserve System's approach to safeguarding Controlled Unclassified Information (CUI) received from other federal agencies. The report highlights the strengths of the Board's information classification and handling processes in protecting Board sensitive information but does identify improvement opportunities regarding providing Board staff additional guidance around handling information from other agencies.

We agree with both recommendations offered in your report and have already made progress in addressing the recommendations. We will provide you with our Plan of Actions and Milestones (POA&Ms) shortly and review our status towards addressing those recommendations.

We appreciate the professionalism and courtesies provided by the staff of the Office of the Inspector General and we look forward to working with your office in the future. Thank you for the opportunity to provide comments on this report.

Sincerely,

KOFI SAPONG Digitally signed by KOFI SAPONG
Date: 2023.12.08 14:26:39 -05'00'

Kofi Sapong,
Acting Chief Information Officer (CIO)

Date

cc: Mr. Khalid Hasan
Mr. Charles Young
Ms. Annic Martin