Audit Report

OIG-20-046

FINANCIAL REGULATION AND OVERSIGHT

Prior to 2015, OCC Missed Opportunities to Analyze and Address Inappropriate Sales Practices at Wells Fargo Bank

September 28, 2020

The statements made on pages 2 and 20 regarding OCC providing whistleblower complaints to Treasury OIG Office of Investigations (OI) were clarified in a memorandum dated February 5, 2021 (OIG-CA-21-016). The memorandum clarified that OCC should continue to send allegations of OCC employee misconduct and Orders of Investigations to OI.

Office of Inspector General
Department of the Treasury

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Contents

Audit Report

Results in Brief 2

Background 5

Audit Results 6

Finding 1 OCC Examiners Missed Opportunities from 2010 to 2014 to Analyze and Address Issues within Wells Fargo's Incentive-Based Compensation Structures 6

Finding 2 Other Matters Related to OCC's Supervision of Wells Fargo Bank 19

OCC's Lessons-Learned Review 21

Appendices

Appendix 1: Objectives, Scope, and Methodology 26
Appendix 2: Timeline of Significant Events Related to OCC's Supervision of Wells Fargo 28
Appendix 3: Major Contributors to This Report 37
Appendix 4: Report Distribution 38

Abbreviations

CAG	Customer Assistance Group
C&D	cease and desist
CERM	Compliance and Enterprise Risk Management
CMP	civil money penalty
EGS	Enterprise Governance Supervision
LBS	Large Bank Supervision
MMSRC	Major Matters Supervision Review Committee
MRA	matter requiring attention
OCC	Office of the Comptroller of the Currency

OIG	Office of Inspector General
RRM	Regulatory Risk Management
SSCOT	Sales and Service Conduct Oversight Team
Treasury	Department of the Treasury
UDAP	Unfair or Deceptive Acts or Practices
Wells Fargo	Wells Fargo Bank, N.A.

Audit Report

September 28, 2020

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Acting Comptroller of the Currency
Office of the Comptroller of the Currency

This report presents the results of our audit of the Office of the Comptroller of the Currency's (OCC) oversight of incentive-based compensation structures within Wells Fargo Bank, N.A. (Wells Fargo). On September 8, 2016, OCC assessed Wells Fargo a $35 million civil money penalty[1] (CMP) and issued a cease and desist (C&D) order.[2] This order required the bank to make restitution to customers who were harmed by the bank's unsafe or unsound practices and to develop a comprehensive enterprise-wide action plan to address the underlying causes of the harm. Among other things, the bank was also required to establish an enterprise-wide sales practices risk management and oversight program to detect and prevent unsafe or unsound sales practices and to retain an independent consultant to conduct an independent review of the bank's enterprise-wide governance and risk management of sales practices.

Our audit objectives were to assess: (1) OCC's supervision of incentive-based compensation structures within Wells Fargo; and (2) the timeliness and adequacy of OCC's supervisory and other actions taken related to Wells Fargo's sales practices, including the opening of accounts. To accomplish our objectives, we interviewed OCC officials, current and former

1 A CMP is a penalty assessed by OCC against an institution or an individual that is payable to the U.S. Treasury. OCC may assess a CMP for violations of laws, regulations, orders, conditions imposed in writing, written agreements, reckless unsafe or unsound practices, and breaches of fiduciary duty.

2 A C&D order is an order issued by OCC that sets out in article-by-article form restrictions and remedial measures necessary to correct unsafe or unsound practices or violations in the bank in order to return it to a safe and sound condition.

members of the Wells Fargo examination team, and reviewed relevant OCC documentation. The scope of our audit ranged from January 2009 through May 2017. We conducted our fieldwork from October 2016 through September 2017 with subsequent follow-up through March 2020 to ensure the information supporting our conclusions had not changed. Appendix 1 contains a more detailed description of our audit objectives, scope, and methodology.

Results in Brief

We believe that OCC examiners missed opportunities from 2010 to 2014 to analyze and address issues within Wells Fargo's incentive-based compensation structures. More specifically, although OCC assessed Wells Fargo's governance and risk management practices related to compliance and operational risk during this period; it did not assess the bank's oversight and governance of sales practices until 2015. We believe this was due, in part, to OCC examiners not sufficiently reviewing Wells Fargo's internal complaint data.[3] In our opinion, OCC could have identified the magnitude of, addressed, and taken supervisory action sooner on the inappropriate sales practices, had it assessed these practices prior to 2015.

We also determined that OCC lacked a formal complaint process for tracking "whistleblower-related" referrals made to OCC from initiation through resolution. Specifically, OCC's former complaint process did not adequately record and track the research and resolution of matters that were whistleblower-related. According to OCC officials, its former complaint process was not an end-to-end process which could have benefited the Large Bank Supervision (LBS) examination team in identifying trends and addressing potential risks at Wells Fargo. We believe that if an adequate process had been in place, it could have identified the rise in sales integrity complaints and potentially assisted in identifying and addressing the inappropriate sales practices at Wells Fargo sooner. We encourage OCC to continue to provide whistleblower referrals to

[3] Wells Fargo's internal complaint data included bank employees alleging potential misconduct or criminal activity.

the Department of the Treasury (Treasury) Office of Inspector General (OIG) Office of Investigations to further support OIG's investigative process.

In order to improve its supervisory process, OCC's Enterprise Governance Supervision (EGS) division performed an independent review of the Wells Fargo supervisory record. EGS summarized the findings of that review in its *"Lessons-Learned Review of Supervision of Sales Practices at Wells Fargo"* report, dated April 2017.[4] In its review, EGS identified significant issues relating to OCC's supervisory actions regarding complaint management and sales practices which align with our conclusion that prior to 2015, OCC examiners missed opportunities to analyze and address issues within Wells Fargo's incentive-based compensation structures. In its lessons learned review report, EGS made nine recommendations to address these and other supervisory issues.[5] The following two recommendations related to the implementation of an enterprise-wide whistleblower complaint review process:

- Implement an LBS process to ensure periodic, comprehensive analysis of complaints and whistleblower cases which includes testing, analysis of systemic root causes, and appropriate follow up; and

- Develop an enterprise-wide whistleblower process and update external-facing interfaces (occ.gov and helpwithmybank.gov) to inform the public or other governmental agencies how to communicate whistleblower information to OCC. Further, based on findings from this independent review, LBS would have benefited from having well-developed whistleblower protocols in place to research each individual case, document resolution of those cases, and analyze potential systemic risk. By extension, the agency would

4 https://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-wells-fargo-supervision-lessons-learned-41917.pdf

5 The nine recommendations included steps that OCC planned to take to improve its supervisory processes going forward with regards to the following areas: comprehensive LBS complaint and whistleblower analysis and follow-up, effective supervision of controls around high risk incentives, quality communication on matters requiring attention (MRA) and follow-up, clear supervisory records, supervision of reputation risk, and an enterprise-wide whistleblower process.

have benefited from well-developed whistleblower protocols by having an earlier indication of potential reputation or supervision risk for the agency.

In a subsequent follow-up inquiry in January 2020, OCC provided us a description of the actions OCC has taken, which are discussed further below, to address the nine recommendations. OCC addressed all actions by June 2018. As part of our audit, we did not perform procedures relating to all the corrective actions taken by OCC. However, we reviewed supporting documentation for the two recommendations noted above relating to the implementation of an enterprise-wide whistleblower complaint review process. We noted OCC updated the LBS and Compliance Management Systems booklets from its Comptroller's Handbook to reflect LBS' enhancement of its core assessment process, which requires an analysis and assessment of complaints and whistleblower cases at least annually. The analysis and assessment will assist OCC in identifying potential risk management weaknesses or other deficiencies, such as violations of laws or regulations. Furthermore, OCC enhanced and implemented a new enterprise-wide whistleblower system that includes continued support for referring whistleblowers to a single office for recording, documenting, tracking, and following up on the whistleblower claims.

Therefore, based on OCC taking corrective actions to implement these two recommendations, as well as the other seven recommendations identified in its lessons-learned review, we are not making any recommendations to OCC. As part of our reporting process, we provided a draft of this report to OCC to obtain management's views and comments. OCC did not provide an official written response for inclusion in this report, but in an email response to our draft report, management stated that OCC agrees with our two findings and that they are consistent with what OCC self-identified in its 2017 lessons-learned report. Management also stated that all nine recommendations included in the lessons-learned report were addressed as of June 2018.

Background

In October and December 2013, the Los Angeles Times published articles reporting inappropriate sales practices by Wells Fargo employees which included employees opening accounts without the customers' knowledge and forging customers' signatures. These articles also reported a culture of extreme pressure to meet sales goals at Wells Fargo where top executives exhorted employees to sell each customer an average of eight financial products per household. This initiative was known as "Going for Gr-Eight."

On May 4, 2015, the City of Los Angeles filed a lawsuit against Wells Fargo. The lawsuit alleged that the bank engaged in unlawful, unfair, and fraudulent sales and business acts and practices that resulted in customer harm and violations of consumer protection laws.

As discussed above, in September 2016, OCC assessed Wells Fargo a $35 million CMP and issued a C&D order that required the bank to make restitution to customers who were harmed by the bank's unsafe or unsound practices. These practices included (1) the selling of unwanted deposit or credit card accounts; (2) the unauthorized opening of deposit or credit card accounts; (3) the transfer of funds from authorized, existing accounts to unauthorized accounts; and (4) unauthorized credit inquiries. In addition, the C&D order required the bank, among other things, to (1) develop a comprehensive action plan, (2) retain a consultant to conduct an independent review of the bank's enterprise-wide governance and risk management of sales practices and prepare a written report of findings and recommendations, and (3) establish an enterprise-wide sales practices risk management and oversight program to detect and prevent unsafe or unsound sales practices. Further, on September 8, 2016, the Consumer Financial Protection Bureau issued a consent order to Wells Fargo that required the bank to (1) pay full refunds to consumers, (2) ensure proper sales practices, and (3) pay a $100 million fine.

In addition to the $35 million CMP OCC assessed Wells Fargo, the settlement of the lawsuit mentioned above required the bank to pay $50 million in penalties to the city and county of

Los Angeles and to also provide restitution to affected customers.

On January 23, 2020, OCC issued a notice of charges against five former senior Wells Fargo bank executives and announced settlements with the bank's former Chief Executive Officer and other members of the bank's operating committee. Among other allegations, the notice of charges alleged that a couple of the former senior executives made false and misleading statements to OCC about the sales practices misconduct problem in Wells Fargo's Community Bank. Furthermore, one of the former senior executives allegedly actively obstructed OCC's examinations of the bank's sales practices.

On February 20, 2020, the Department of Justice entered into a deferred prosecution agreement with Wells Fargo emerging from the bank's improper sales practices. In the agreement's statement of facts, Wells Fargo admitted that during OCC examinations in February and May 2015, certain Community Bank leaders impeded OCC's scrutiny of sales practices by providing information that minimized the amount of sales pressure within the Community Bank and the size and scope of Wells Fargo's sales practices problem.

Audit Results

Finding 1 OCC Examiners Missed Opportunities from 2010 to 2014 to Analyze and Address Issues within Wells Fargo's Incentive-Based Compensation Structures

We determined that OCC examiners missed opportunities from 2010 to 2014 to analyze and address issues within Wells Fargo's incentive-based compensation structures. More specifically, although OCC assessed Wells Fargo's governance and risk management practices related to compliance and operational risk during this period;[6] it did not assess the bank's oversight and governance of sales practices until 2015. OCC examiners told us that due to OCC's supervision by risk strategy, competing priorities, supervisory process, and limited resources, they were unable to timely assess the magnitude of the sales practices issue. Further, they explained that the bank's historically solid reputation gave them confidence in the bank's explanation for the rise in complaints and the corrective actions taken by bank officials. However, we believe that had OCC assessed sales practices during this period, it could have taken supervisory action sooner.

In December 2009, an OCC examiner reviewed Wells Fargo's year to date third quarter 2009 EthicsLine[7] report that detailed 521 complaints of alleged sales integrity violations.[8] Subsequently, in January 2010, the examiner met with Wells Fargo senior management, including Wells Fargo's Senior Executive Vice President of Community Banking and the Group Risk Officer, and asked them about the whistleblower complaints related to gaming of incentive plans. According to OCC's meeting minutes, the Senior Executive Vice President responded that the primary reason for the high number of complaints was the fact that Wells Fargo's culture encourages valid complaints which are then investigated and appropriately addressed.

Additionally, OCC identified sales quality and incentive gaming as the number one EthicsLine referral as part of its 2010, 2011,

6 OCC's assessment of Wells Fargo's governance and risk management practices related to compliance and operational risk included, but was not limited to, a review of Wells Fargo's Compliance and Enterprise Risk Management (CERM), fraud risk management, Unfair or Deceptive Acts or Practices (UDAP), enterprise complaint management, talent management and compensation, and Heightened Standards. Heightened Standards established minimum standards for the design and implementation of a risk governance framework for large insured national banks, insured Federal savings associations, and insured Federal branches of foreign banks with average total consolidated assets of $50 billion or more and minimum standards for a board of directors in overseeing the framework's design and implementation.

7 Beginning in 2004, Wells Fargo established an EthicsLine for team members to call or access online to report suspected violations of the Bank's Code of Ethics and Business Conduct or any laws, rules or regulations.

8 Wells Fargo's fourth quarter 2009 EthicsLine report detailed 667 complaints of alleged sales integrity violations.

and 2012 operational risk core assessments. Further, in its 2010 and 2012 operational risk core assessments, OCC questioned the relationship between the product cross-selling goals being exceeded and the high-level of whistleblower referrals related to incentive plan gaming.[9] However, OCC's core assessments did not include conclusions as to the root cause of EthicsLine referrals. According to OCC's guidance,[10] when using the core assessment standards,[11] examiners should use judgment in deciding how to perform their assessments and the level of independent testing needed. Further, examiners should be alert to specific activities or risks that may trigger the need for the examiner-in-charge to broaden the scope of examination.

Furthermore, in light of OCC's knowledge of whistleblower referrals related to sales quality, we believe OCC examiners missed opportunities to determine the root cause of the whistleblower referrals during their scheduled examinations. For example, in its 2013 Unfair or Deceptive Acts or Practices (UDAP) examination,[12] OCC performed a high-level review of how the bank captures, investigates, resolves, and reports on EthicsLine whistleblower complaints. However, OCC did not perform transaction testing of complaints involving the bank's employees with potential UDAP violations. Additionally, OCC did not perform transaction testing of employee allegations to assess the effectiveness of Wells Fargo's investigation of the allegations and the impact on customers.

Further, according to an OCC examiner, a review of Wells Fargo's EthicsLine was scheduled during a 2011 fraud examination. OCC conducted a fraud examination in 2011;

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[9] Incentive plan "gaming" is the manipulation and/or misrepresentation of sales in an attempt to receive compensation or meet sales goals through activities such as the unauthorized opening of accounts.

[10] Comptroller's Handbook, Large Bank Supervision (January 2010)

[11] Core assessment standards include standards and procedures that guide examiners in reaching conclusions on both risk assessments and regulatory ratings.

[12] In May 2013, OCC performed an examination of Wells Fargo's Community Banking's compliance with Section 5 of the Federal Trade Commission Act, 15 USC 45 (a)(1), which prohibits unfair or deceptive acts or practices in, or affecting commerce. During this examination, OCC obtained an understanding of Wells Fargo's Community Banking's UDAP risk profile and assessed the adequacy of processes and controls in place to mitigate the risk.

however, it decided not to review the whistleblower processes as planned since they had been reviewed in a prior 2010 examination. Also, the same examiner told us that although the fraud examination was completed, OCC did not issue a supervisory letter to the bank for a variety of reasons, including, but not limited to, the bank proactively addressing OCC's minor recommendations related to the bank's fraud corporate risk management.

In 2013, Wells Fargo's Regional Banking Sales and Service Conduct Oversight Team (SSCOT)[13] began to focus on simulated funding and generated a report identifying activity indicative of simulated funding across regional banks. SSCOT referred the allegations to the bank's Financial Crimes Risk Management Internal Investigations Group.[14] In September 2013, this group conducted an initial investigation into Wells Fargo's employees engaging in simulated funding.[15] The first and second rounds of the initial investigation resulted in 35 and 21 employee terminations, respectively. In November 2013, Wells Fargo expanded its investigation into simulated funding across its retail banking. This expanded investigation resulted in additional employee separations, mostly terminations. At the conclusion of Wells Fargo's investigations in 2014, 230[16] employees were terminated or chose to resign.

According to OCC examiners, they became aware of Wells Fargo's investigation into simulated funding and the initial

[13] Wells Fargo's SSCOT is comprised of several teams whose focus is to address the expanding needs for sales quality analysis. Currently, SSCOT makes referrals to and assists internal investigations with research.

[14] The Financial Crimes Risk Management Internal Investigations Group is responsible for protecting Wells Fargo's assets, brand, and reputation by investigating allegations of team member or contingent workers, such as contractors or consultants, misconduct specific to potential violations of law, dishonest acts, or significant violations of Wells Fargo's code of ethics or information security policy. In 2015, Wells Fargo's internal investigations began reporting to the Financial Crimes Risk Management Internal Investigations Group.

[15] Simulated funding is a prohibited practice whereby an employee transfers funds, without the customer's knowledge or consent, from an existing account of that customer to an unauthorized account to make it look as if the customer had funded the unauthorized account.

[16] The notice of charges issued on January 23, 2020, against former senior Wells Fargo bank executives, stated that the termination of the 230 employees was a misrepresentation, as the Community Bank terminated 1,000-2,000 employees per year for engaging in sales practices-related wrongdoing.

employee terminations during a January 2014 meeting with Wells Fargo's Senior Executive Vice President and Chief Risk Officer and did not become aware of the 230 terminations/resignations until May 2015. However, OCC examiners did not review the results of these investigations by Wells Fargo until after they became aware of the initial employee terminations in January 2014. In our opinion, this was a missed opportunity to review the simulated funding issue.

As discussed above, in October and December 2013, the Los Angeles Times published articles regarding the bank's aggressive sales practices. When asked, OCC's examination team was unable to identify any documentation supporting exactly when they became aware of the October 2013 article. However, they did meet with Wells Fargo's Senior Executive Vice President and the Group Risk Officer in January 2014 to discuss the December 2013 article and were told that 30 employees were terminated as a result of consumer and internal ethics complaints. Based on this, OCC added a review of sales practices to its fiscal year 2015 supervisory strategy for the bank. However, we believe OCC missed an opportunity to update its fiscal year 2014 supervisory strategy to include a review of sales practices when it first became aware of the issue in early 2014.

OCC examiners told us that they could have performed a review of sales practices in 2014; however, OCC's supervision by risk approach could not accommodate such an adjustment given the other competing priorities. Additionally, OCC examiners told us that OCC's supervisory strategy process was not nimble when it comes to changing priorities. However, according to OCC's *Large Bank Supervision* booklet, dated January 2010, supervisory strategies are updated throughout the year based on changing risks to national banks and the banking system, conflicting resource demands, system conversions, and changes in supervisory priorities. Further, OCC's *Bank Supervision Process* booklet states that activities included as part of the supervisory strategy should correspond to the level of risk in each bank and statutory requirement; however, examiners should employ some periodic baseline transaction testing to validate key control functions and systems, even if those areas are considered low risk.

We believe that had OCC determined the root cause for the EthicsLine whistleblower complaints, followed-up on the investigations of simulated funding conducted by Wells Fargo, scheduled an examination of sales practices in 2014, and not missed other opportunities as discussed below, OCC could have identified the magnitude of and addressed the inappropriate sales practices sooner.

Below is a discussion of additional missed opportunities for OCC to analyze Wells Fargo's sales practices.

- In July 2009, OCC conducted an examination of the bank's Compliance and Enterprise Risk Management (CERM) group where it evaluated the effectiveness of CERM's complaint[17] management process. In March 2010, OCC issued a matter requiring attention (MRA) requiring the bank to develop and implement a comprehensive enterprise-wide system for complaint management. In February 2011, OCC conducted an examination to follow-up on the MRA issued in March 2010 and determined that management was making progress addressing the issues identified. In October 2013, OCC closed the MRA in recognition of management's completion of the most significant requirements of the MRA as it was originally written. However, the regulatory expectations and industry standards for complaint aggregation analysis and reporting increased significantly since the original MRA. Therefore, OCC began tracking the implementation of the enterprise-wide complaint management and analysis function as part Wells Fargo's implementation of its Regulatory Risk Management (RRM) strategic plan discussed below.

  In July 2012, OCC conducted an examination of the bank's RRM group, formerly known as the Compliance Risk Management group. In February 2013, based on its examination, OCC issued a MRA requiring the bank to

[17] Complaints received by Wells Fargo's Community Reinvestment Act Risk Management and the lines of business.

implement complaints oversight as one of the specific initiatives within the RRM strategic plan to address the deficiencies noted and OCC's Heightened Expectations[18] for strong risk management.

- In July 2010, OCC conducted an examination of the bank's fraud risk management program in which the primary objective was to evaluate governance of the bank's fraud prevention and detection processes across the enterprise. During this examination, OCC assessed the design of the bank's complaint and whistleblower requirements as outlined in the Sarbanes-Oxley Act of 2002.[19] The examiners reviewed a sample of 14 EthicsLine whistleblower referrals from across the spectrum of case types. Their review found no issues with data quality or case dispositions. The examiners' conclusions noted that case management practices and whistleblower program awareness efforts were satisfactory.
- In its fiscal year 2011 supervisory strategy, OCC planned a July targeted review on incentive compensation for non-executives. OCC examiners informed us that the examination as originally scoped was not completed. The original scope was significantly changed and the examination covered Wells Fargo's internal audit coverage of executive and non-executive compensation instead of non-executive incentive compensation.[20]
- In 2012, OCC and the Board of Governors of the Federal Reserve System[21] conducted a joint examination of the bank's model risk management and governance practices. In December 2012, OCC issued a MRA requiring the bank to take steps to ensure that appropriate incentives, including

[18] As a result of the financial crisis, OCC developed a set of "Heightened Expectations," which included guidelines that could be used to enhance its supervision and strengthen the governance and risk management practices of large national banks. These expectations were subsequently codified into and replaced with Heightened Standards, which provides OCC an enforcement mechanism to ensure the guidelines were being followed.

[19] Public Law 107-204 (July 30, 2002)

[20] As part of the non-executive incentive compensation review, OCC examiners planned to evaluate risk management practices related to the design, approval, implementation, and monitoring of incentive compensation structures for non-executive compensation programs.

[21] The Board of Governors of the Federal Reserve System is the primary regulator for Wells Fargo's holding company.

compensation practices, are in place to support an effective model risk management and governance framework.

- In January 2014, OCC issued a supervisory letter that summarized the results of OCC's November 2011 horizontal review of UDAP compliance risk management at Wells Fargo. OCC delayed providing its findings related to the horizontal review until it completed several other OCC supervisory activities that also evaluated UDAP risk within various Wells Fargo lines of businesses. OCC examiners concluded that Wells Fargo had an inherently high level of UDAP risk, but did not have an effective compliance management program to identify and mitigate the risk. OCC issued a MRA requiring the bank to develop and implement a comprehensive enterprise UDAP compliance risk management program.
- In July 2014, OCC conducted an examination of the bank's talent management and compensation practices. The review focused on assessing existing practices for talent management and compensation focusing on *OCC's Heightened Expectations* and the *Notice of Proposed Rulemaking: 12 CFR 30, Appendix D.*[22] OCC concluded that the bank management had met the spirit of OCC's Heightened Expectations for talent management and compensation with respect to the design of the programs and processes. However, in light of the number and severity of risk events at the bank, there were not a sufficient number of covered employees that had adverse ratings in their risk management performance or a correlated reduction of incentive compensation. In September 2014, OCC issued a MRA requiring the bank to improve talent management and compensation practices to fully comply with regulatory guidance regarding risk/reward balance.

[22] In January 2014, OCC released a proposal establishing minimum standards for the design and implementation of a risk governance framework for large insured national banks, insured Federal savings associations, and insured Federal branches of foreign banks with average total consolidated assets of $50 billion or more and minimum standards for a board of directors in overseeing the framework's design and implementation.

Factors that contributed to OCC's lack of supervisory actions against Wells Fargo prior to 2015

Former and current members of OCC's Wells Fargo examination team provided us multiple explanations as to why they did not assess the magnitude of the sales practices issue and take supervisory action sooner. They identified five broad areas, which were supervision by risk, competing priorities, staff resources, supervisory process, and bank's reputation, which are outlined below.

Supervision by Risk

a. OCC employs a supervision by risk approach to examining institutions. Supervision by risk allocates greater resources to areas with higher risks. OCC accomplishes this by identifying risks using common definitions, measuring risks using common methods of evaluation, and evaluating risk management to determine if bank systems and processes permit management to adequately identify, measure, monitor and control risks.

b. Historically, deposits have never been a high risk for banks and banks don't fail because of deposit products. OCC's primary concern is that the bank operates in a safe and sound manner and maintains capital commensurate with its risk.

c. The termination of 30 employees in 2013 was considered immaterial and insignificant compared to the bank's population of approximately 200,000 employees.

d. Sales practices were considered a low risk area and were rarely looked at as part of a routine examination. There is no known guidance for reviewing low risk areas.[23]

[23] Although we were told that there is no known guidance for reviewing low risk areas, OCC's *Bank Supervision Process* booklet from its Comptroller's Handbook states that as part of the supervisory strategy, examiners should employ some periodic baseline transaction testing to validate key control functions and systems, even if those areas are considered low risk.

e. OCC did not take stronger action against Wells Fargo earlier because examiners did not think the issue was severe, thus it did not warrant a change in supervisory strategy.

f. Examiners told us that the full magnitude of Wells Fargo's problems with sales practices were unknown by them when the Los Angeles Times article was published in December 2013. They did not size the issue at the time which resulted in it not being properly quantified. They also said reputational risks are difficult to quantify.

Competing Priorities

a. OCC's LBS has a number of statutory examinations to conduct every year that take priority over low risk areas.

b. Safety and soundness was the primary focus coming out of the financial crisis. During that time, the bank was under two high profile consent orders.[24] Both consent orders required a large number of OCC staff resources to handle the work. The examiner in charge had to cancel examinations in order to fully staff these efforts.

c. In 2014, the Heightened Standards[25] initiative was being implemented which became yet another priority that required an allocation of OCC's resources.

Limited Staff Resources

a. OCC examiners told us that the Wells Fargo compliance examination team was understaffed. Given the number of high priority examinations and initiatives at the time, they

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[24] In 2010, OCC issued a C&D order against Wachovia Bank, NA for noncompliance with the Bank Secrecy Act and anti-money laundering regulations. Wells Fargo acquired Wachovia Bank in 2008. Once the integration of Wachovia Bank into Wells Fargo was complete, Wells Fargo assumed responsibility for the order. In April 2011, OCC issued a consent order against Wells Fargo for its unsafe or unsound practices related to residential mortgage loan servicing and foreclosure processing.

[25] OCC issued *OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of 12 CFR Parts 30 and 170* on November 10, 2014.

were unable to assign staff to review the sales practices area sooner.

Rigid Supervisory Process

a. The supervisory strategy for the bank is completed 6 to 18 months in advance of performing the work. Several OCC examiners told us that the strategy process is not nimble because it does not allow for changes in strategy (scheduled examinations) without adequate justification, support, and sufficient notification. Further, all changes must be approved by OCC's senior level management.

b. OCC uses the following approach in determining the risk for the next supervisory cycle:

   i. First, the team managers determine the greatest risk to their respective areas.
   ii. Second, lead experts at headquarters provide requirements or suggestions of emerging risks that should be reviewed.

Bank's Solid Reputation

a. According to OCC examiners, historically, Wells Fargo had a solid reputation. The explanations provided by the bank's senior management when asked about the increase in EthicsLine complaints seemed reasonable and unrehearsed to OCC examiners.

b. Articles similar to the Los Angeles Times articles are published often about banks and often times the press does not have all the facts. OCC officials told us that it is uncommon to change its supervisory course due to press allegations.

We believe OCC took appropriate supervisory action beginning in 2015 when it assessed the magnitude of weaknesses related to the bank's management and oversight of enterprise sales practices risks. OCC's supervisory actions are summarized below.

- In February 2015, OCC conducted an examination of Wells Fargo's community bank's operational risk management. The review focused on governance of operational risk, utilization of risk tools, implementation of strategic plans and new products, internal loss oversight, complaints management, and sufficiency and quality of staff. The examiners also evaluated the community bank division's oversight of sales practices. OCC concluded that the bank lacked a formalized governance framework to oversee sales practices. In April 2015, OCC issued a MRA requiring the bank's Community Banking division to establish an overarching governance framework and formalize current practices in policy.
- In May 2015, OCC reviewed the bank's enterprise sales practices. The review focused on the events in 2013 that led to the initial employee terminations, the investigation of employee misconduct that followed, and overall changes in governance intended to improve the bank's practices. OCC concluded that Wells Fargo's management and oversight of enterprise sales practices risk was weak and needed to improve. In June 2015, OCC issued five MRAs that required the bank to take significant action to address (1) the inappropriate tone at the top, that included the lack of an appropriate control or oversight structure given corporate emphasis on product sales and cross-selling; (2) the lack of an enterprise-wide sales practices oversight program; (3) the lack of an effective enterprise-wide customer complaint process; (4) the lack of a formalized governance process to oversee sales practices and effectively oversee and test branch sales practices; and (5) the failure of the bank's internal audit services to identify the above issues or to aggregate sales practice issues into an enterprise view.
- In July 2016, OCC issued a supervisory letter summarizing findings from its ongoing review of sales practices risk at the bank. OCC reviewed additional reports and materials prepared by the bank and third-party consultants and concluded the bank engaged in unsafe or unsound banking practices.
- As previously discussed, in September 2016, OCC assessed Wells Fargo a $35 million CMP and issued a C&D order. The five MRAs issued in June 2015 were included in the C&D

order. The enforcement action, among other things, required the bank to make restitution to customers who were harmed by the bank's unsafe or unsound sales practices and to develop a comprehensive enterprise-wide action plan to address the underlying causes of the harm.

- On January 23, 2020, OCC issued a notice of charges against five former senior Wells Fargo bank executives and announced settlements with the bank's former Chief Executive Officer and other members of the bank's operating committee. Among other allegations, the notice of charges alleged that a couple of the former senior executives made false and misleading statements to OCC about the sales practices misconduct problem in the Community Bank. Furthermore, one of the former senior executives allegedly actively obstructed OCC's examinations of the bank's sales practices.

As discussed further below under "OCC's Lessons Learned Review," OCC's EGS division performed an independent review of the Wells Fargo supervisory record to identify any supervision gaps and lessons-learned to improve the OCC's supervisory processes going forward. OCC identified and corrected significant issues relating to its complaint management and sales practices which align with our conclusion that prior to 2015, OCC examiners missed opportunities to analyze and address issues within Wells Fargo's incentive-based compensation structures. In its lessons learned review report, OCC made nine recommendations to address these and other supervisory issues. In a subsequent follow-up inquiry in January 2020, OCC provided us a description of the actions OCC has taken to address the nine recommendations.

As part of our audit, we did not perform procedures relating to all the corrective actions taken by OCC. However, we reviewed supporting documentation for the two recommendations relating to the implementation of an enterprise-wide whistleblower complaint review process. Based on OCC taking corrective actions to implement these two recommendations, as well as the other seven recommendations identified in its lessons-learned review, we are not making any recommendations to OCC.

Finding 2 Other Matters Related to OCC's Supervision of Wells Fargo Bank

During our review of OCC's supervision of Wells Fargo, specifically its oversight of incentive-based compensation structures and sales practices, we determined that OCC lacked a formal enterprise-wide process for tracking whistleblower referrals made to OCC from initiation through resolution. According to OCC officials, a complaint process existed; however, this process was not a centralized, end-to-end process which could have benefited the LBS team in researching cases, documenting the resolutions of those cases, and analyzing potential reputation or supervision risks to the bank. OCC officials told us that whistleblower cases were housed in three business unit systems, with the Customer Assistance Group's (CAG) Remedy system serving as the only comprehensive view of all whistleblower cases (excluding the ultimate resolution of each case).

According to OCC officials, an enterprise-wide whistleblower review process that includes referring whistleblowers to a single office for recording, documenting, tracking, and following up on the whistleblower claim was implemented in May 2017. Below is a brief description of the CAG and the implemented whistleblower referral process:

- OCC's CAG helps bank customers with complaints and concerns related to applicable banking laws and regulations. In addition to providing informal consumer education on a variety of banking topics, the CAG facilitates communication between banks and their customers regarding individual disputes formally filed with OCC.
- According to OCC officials, consumer complaints can serve as an early warning system for problems within the banking industry. A rising complaint volume could indicate increased strategic, reputation, compliance, or transaction risks.
- OCC officials told us that its complaint process was refined in late 2016, when they implemented new procedures for handling whistleblower referrals/inquiries in light of the Wells Fargo matter.

- OCC enhanced its complaint process to ensure that whistleblower referrals/inquiries are properly vetted and elevated to the highest levels within OCC. This enhanced process, which requires various business lines within OCC to collaborate on the resolution of a referral/inquiry, began in the first quarter 2017. The complainant can now initiate an inquiry through the CAG by phone (voice recorded), e-mail, or fax, an enhancement from the previous CAG complaint process which processed written complaints/inquiries only.
- This process implemented in May 2017 also includes a procedure in which OCC's Treasury OIG Liaison Group receives notification of all potential whistleblower referrals entered into the tracking system. OCC officials told us that upon notification by the tracking system, the OCC business units (including the OIG Liaison) have 30 days to close the case and that most cases are closed within 30 days. In addition to its internal review process, the Liaison Group will forward all cases received to the OIG's Office of Investigations on the 15th of every month with supporting documentation.
- OCC officials told us that the whistleblower referral process implemented in May 2017 is designed to assist LBS with identifying and mitigating potential systemic risks to banks.
- OCC officials told us that they have expanded the analyst team to review coding of all written cases to identify trends and/or outliers on a monthly basis. This information is forwarded to the appropriate lines of business within OCC.

We determined that OCC's former complaint process did not adequately record and track the research and resolution of matters that were whistleblower-related. We believe that if an adequate process had been in place, it would have identified the rise in sales integrity complaints and potentially assisted in identifying and addressing the inappropriate sales practices at Wells Fargo sooner. We encourage OCC to continue to provide whistleblower referrals to the Office of Investigations to further support OIG's investigative process.

OCC's Lessons-Learned Review

Following the September 2016 C&D order and related CMP issued by OCC, the Comptroller of the Currency directed OCC's EGS division to perform an independent review of the Wells Fargo supervisory record to identify any supervision gaps and lessons-learned to improve the OCC's supervisory processes going forward. As discussed above, OCC summarized the findings of that review in its "*Lessons-Learned Review of Supervision of Sales Practices at Wells Fargo*" report.[26]

EGS found that OCC did not take timely and effective supervisory actions after the bank and OCC identified significant issues with complaint management and sales practices. The report cited a MRA that OCC issued in a Supervisory Letter in 2009 which remained uncorrected and was incorporated into the 2016 C&D order. Over the course of that 7-year period, there were opportunities for OCC to escalate supervisory action to resolve this issue.

The report also stated that EGS found that the issues with sales practices were identified in the bank's internal audit committee reports as early as 2005 and in OCC's core assessment conclusions since at least 2010. EGS observed supervision gaps or deficient processes that could have improved the timeliness and effectiveness of supervision of sales practices and summarized these gaps into the following categories:

- Untimely and ineffective supervision of complaints and whistleblower cases
    - The Wells Fargo examiner team's supervision of consumer complaints and employee complaints received through the bank's EthicsLine, and whistleblower cases did not ensure examiners evaluated root causes (i.e., aggressive incentives, weak preventive controls), so that supervisory strategies and corrective actions could have been designed to correct systemic, inappropriate practices that were deemed as the root causes of the issues.

[26] https://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-wells-fargo-supervision-lessons-learned-41917.pdf

- The supervisory record evidenced several missed opportunities to perform comprehensive analyses and take more timely action beginning in 2010.

- Untimely and ineffective supervision of incentive programs related to sales practices
  - OCC identified concerns with aggressive sales practices as early as 2010. OCC identified the bank's strategic initiative, which promoted doubling the number of products per customer to eight, as a factor contributing to the high operational risk rating. Despite ongoing red flags from both OCC and Wells Fargo's internal whistleblower cases, as well as internal EthicsLine complaints regarding sales integrity violations and gaming sales incentive programs, EGS found no evidence that supervisory activities included in-depth review and testing of monitoring systems and controls over this area, at least from 2011 through 2014.
  - Supervisory strategies for fiscal year 2011 and fiscal year 2013 included plans to perform incentive plan sampling and testing; however, those plans were not executed.
- Ineffective MRA communication and follow-up
  - EGS found unclear and ineffective communication and follow-up on a MRA related to CERM.
- Noncompliance with OCC guidance
  - Noncompliance with the Comptroller's Handbook, *Large Bank Supervision*, as there was no evidence in the core assessment, from 2011 through 2014, that examiners considered the nature and amount of exposure from customer complaints in the reputation risk assessment.
  - Noncompliance with the *MRA Policies and Procedures Manual*[27] regarding not conveying MRAs to the Board or a Board Committee.
- Unclear supervisory records, including the following supervisory record concerns noted by EGS:
  - lack of documented analysis of bank source documents,

[27] PPM 5400-11, "*Matters Requiring Attention*"

- difficulty tracking strategy execution,
- difficulty tracking follow-up on MRAs, and
- difficulty tracking the specific support for conclusions.

As a result of this independent review, EGS identified nine recommendations which entail the steps that OCC planned to take to improve its supervisory processes going forward with regards to the following areas: a comprehensive LBS complaint and whistleblower analysis and follow-up, effective supervision of controls around high risk incentives, quality MRA communication and follow-up, clear supervisory records, supervision of reputation risk, and an enterprise-wide whistleblower process.

In a subsequent follow-up inquiry in January 2020, OCC provided us a description of the corrective actions OCC has taken to address the nine recommendations, which are included in the report in the link above. According to the description provided by OCC, as of June 2018, OCC implemented all nine recommendations. As part of our audit, we did not perform procedures relating to all these corrective actions. However, we reviewed supporting documentation for the following two recommendations relating to the implementation of an enterprise-wide whistleblower complaint review process:

- Implement an LBS process to ensure periodic, comprehensive analysis of complaints and whistleblower cases which includes testing, analysis of systemic root causes, and appropriate follow up.

- Develop an enterprise-wide whistleblower process and update external-facing interfaces (occ.gov and helpwithmybank.gov) to inform the public or other governmental agencies how to communicate whistleblower information to the OCC. Further, based on findings from this independent review, LBS would have benefited from having well-developed whistleblower protocols in place to research each individual case, document resolution of those cases, and analyze potential systemic risk. By extension, the agency would have benefited from well-developed whistleblower protocols by having an earlier indication of potential reputation or supervision risk for the agency.

In response to the two recommendations above, OCC updated the LBS and Compliance Management Systems booklets from its Comptroller's Handbook to reflect LBS enhancement of its core assessment process which requires an analysis and assessment of complaints and whistleblower cases at least annually. The analysis and assessment will assist OCC in identifying potential risk management weaknesses or other deficiencies, such as violations or laws or regulations. Furthermore, OCC enhanced and implemented a new enterprise-wide whistleblower system that includes continued support for referring whistleblowers to a single office for recording, documenting, tracking and following up on the whistleblower claims.

Some of the other corrective actions OCC described to us as being taken include, but are not limited to, (1) enhancing its supervisory strategy and associated quality control processes to include the review of canceled or deferred supervisory activities in subsequent strategy planning cycles, independent reviews by lead experts and risk specialists in the Systemic Risk Identification Support and Specialty Supervision unit during the strategy development process, and the implementation of risk escalation processes; (2) requiring staff to take MRA training and enhancing its MRA tracking tools; (3) updating its standard operating procedures and conducting training to ensure appropriate supervisory documentation is maintained; and (4) LBS enhancing its coordination and collaboration with other business units by regularly including them in meetings and expanding the membership of the Large Bank Risk Committee.

We noted that EGS's conclusion that OCC did not take timely and effective supervisory actions after the bank and OCC identified significant issues with complaint management and sales practices align with our conclusion that prior to 2015, OCC examiners missed opportunities to analyze and address issues within Wells Fargo's incentive-based compensation structures. However, based on OCC taking corrective actions to implement the nine recommendations identified in its lessons-learned review, we are not making any recommendations to OCC.

OCC did not provide an official written response for inclusion in this report, but in an email response to our draft report, management stated that it agrees with our two findings and that they are consistent with what OCC self-identified in its 2017 lessons-learned report. Management also stated that all nine recommendations included in the lessons-learned report were addressed as of June 2018.

* * * * * *

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) 927-9648 or Alicia Weber, Audit Manager, at (202) 927-5811. Major contributors to this report are listed in appendix 3. The distribution list for this report is provided as appendix 4.

/s/
Jeffrey Hawkins
Audit Director

Appendix 1: Objectives, Scope, and Methodology

The objectives of this audit were to assess: (1) the Office of the Comptroller of the Currency's (OCC) supervision of incentive-based compensation structures within Wells Fargo Bank, N.A. (Wells Fargo); and (2) the timeliness and adequacy of OCC's supervisory and other actions taken related to Wells Fargo's sales practices, including the opening of accounts.

To accomplish these objectives, we took the following actions:

- Interviewed OCC's current and former members of the Wells Fargo examination team and OCC officials, including, but not limited to, the Senior Deputy Comptroller for Enterprise Governance and Ombudsman, and the Deputy Comptroller for Operational Risk Policy.
- Reviewed examination reports (target exams and reports of examination), associated workpapers, supervisory letters, matters requiring attention, internal and external audit reports, consent orders, and "whistleblower-related" complaints related to Wells Fargo's sales practices. Further, we evaluated OCC's oversight of Wells Fargo's incentive-based compensation structures and the actions that led to the detection of the inappropriate sales practices (e.g. opening of unauthorized deposit and credit card accounts).
- Reviewed OCC's lessons-learned report and supporting documents to gain an understanding of the supervisory events which led to OCC's issuance of a cease and desist order and civil money penalty. Additionally, we reviewed the description of the corrective actions taken by OCC in response to the nine recommendations noted in its lessons-learned report. Relating to two of the recommendations, we reviewed supporting documentation such as Large Bank Supervision and Compliance Management Systems booklets from its Comptroller's Handbook and other supporting documentation, as well as applicable websites.
- Reviewed OCC's Customer Assistance Group's complaint process guidance as it pertains to whistleblower-related complaints to gain an understanding of the protocols and

procedures for vetting, resolving, and tracking such referrals/inquiries.

- (b) (8) [redacted]

- Reviewed OCC's notice of charges for orders of prohibition and orders to cease and desist and notice of assessments of a civil money penalty, issued on January 23, 2020 against five former senior Wells Fargo bank executives.

- Reviewed the Department of Justice's deferred prosecution agreement with Wells Fargo emerging from Wells Fargo's improper sales practices issued on February 21, 2020.

- We performed our audit fieldwork in Washington, DC and San Francisco, CA from October 2016 to September 2017 with subsequent follow-up through March 2020 to ensure the information supporting our conclusions had not changed. The initial scope of our audit was 2011 through 2017. However, we expanded the scope to include 2009 and 2010 after learning that complaints of inappropriate activities engaged in by Wells Fargo staff occurred prior to the initial scope year of 2011.

We conducted this performance audit in accordance with generally accepted 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 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: Timeline of Significant Events Related to OCC's Supervision of Wells Fargo

The following timeline represents significant events related to the Office of the Comptroller of the Currency's (OCC) supervision of Wells Fargo Bank, N.A. (Wells Fargo) incentive-based compensation structures.

Date	Events
3rd & 4th quarter of calendar year 2009	Wells Fargo Internal Audit and Security reports included a summary of EthicsLine reports received by the bank. Year to date, as of third quarter 2009, Wells Fargo received 521 EthicsLine related cases. As a result of those cases, there were 180 terminations and resignations relating to gaming of sales incentive programs. As of fourth quarter 2009, Wells Fargo received 667 EthicsLine related cases and 242 EthicsLine related terminations and resignations related to gaming sales incentive programs. Gaming of sales incentive programs was a top violation during this time period.
1/13/2010	During a meeting with Wells Fargo's senior management, an OCC examiner asked about hundreds of whistleblower referrals related to gaming of incentive programs. The former Senior Executive Vice President of Community Banking at Wells Fargo stated the primary reason for the high number of referrals is the fact that the Wells Fargo culture encouraged valid referrals which were then investigated and appropriately addressed.

3/22/2010	OCC issued a matter requiring attention (MRA) on Wells Fargo's enterprise-wide complaint management process on March 22, 2010. The MRA stated that management needs to develop and implement a comprehensive enterprise-wide system for complaint management. In response to the MRA, the bank developed a centralized complaint process; however, this new process did not address the handling of whistleblower referrals.
	
	Additional information related to the MRA on enterprise-wide complaint management:
	• The Deputy Comptroller for Large Bank Supervision (LBS) approved the cancellation of a follow-up examination on Wells Fargo's enterprise-wide complaint process MRA; however, examiners reviewed the enterprise-wide complaint process during a February 2011 examination. Results of the examination were reported in a supervisory letter dated June 23, 2011.
	• An OCC examiner followed-up in the first quarter of calendar year 2011 on the enterprise-wide complaint process MRA and determined that the bank's management made the following progress on the enterprise-wide complaint process:
	    o Identified the stakeholders in the project and outlined the issues to be resolved.
	    o Convened a complaint project leadership committee and a complaint working committee represented by personnel at the appropriate levels.
	    o Developed a draft policy and a complaint management committee charter, and identified the system of record and analyzed its feasibility.
	• In October 2013, the enterprise-wide complaint process MRA was closed in recognition of management's completion of the most significant requirements of the MRA as it was originally written. The significant requirements were to (1) establish policies and procedures to compile, analyze, and report complaints received by Community Reinvestment Act risk management and Wells Fargo's lines of businesses, and (2) expand its processes to manage complaints from all sources.

Date	Events
	○ The MRA expected completion date of April 18, 2011 was extended 3 times: July 15, 2012, April 15, 2013, and January 15, 2014. The last extension was approved on January 15, 2013 by the examiner-in-charge. He stated that substantial progress was made and the scope of the project exceeded the intent of the MRA. Resulting systems and information will greatly improve ability to identify, analyze and report on complaints enterprise-wide. However, OCC continued to track the implementation of the enterprise-wide complaint management and analysis function within an existing Regulatory Risk Management (RRM) MRA. This MRA, issued in a supervisory letter on February 25, 2013, stated that management needs to implement the specific initiative within the RRM strategic plan that addresses the deficiencies noted and OCC's Heightened Expectations for strong risk management. ○ Wells Fargo's RRM group took over the management of the enterprise complaint aggregation and analysis function. RRM identified an initiative within their strategic plan to enhance the analysis of complaints relevant to RRM's mission, but modified the scope to encompass their new responsibilities and meet heightened regulatory expectations as well as best in class (benchmark) status for complaint management and analysis.
3/24/2010	The following examinations were scheduled for fiscal year 2011 (per OCC's fiscal year 2011 supervisory strategy): • Enterprise-wide complaint examination under OCC's compliance risk team/group scheduled for February 2011. The supervisory letter for this examination was issued on June 23, 2011. • Whistleblower fraud examination under operational risk scheduled for June 2011. We were told that although the fraud examination was completed, OCC decided not to review the whistleblower processes as planned since it had been reviewed in a prior 2010 examination. Further, the same examiner told us that although the fraud examination was completed, OCC did not issue a supervisory letter to the bank for a variety of reasons, including but not limited to, the bank proactively addressing OCC's minor recommendations related to the bank's fraud corporate risk management. • A target review on incentive-based compensation for non-executives was scheduled for July 2011. OCC examiners informed us that the examination, as originally scoped, was not completed. The original scope was significantly changed and the July 2011 examination covered Wells Fargo's audit coverage of compensation instead of non-executive incentive-based compensation.
2nd quarter of calendar year 2010	OCC's June 2010 operational risk summary reported that there were 1,783 EthicsLine reports during the quarter which resulted in 61 suspicious activity reports filed and 82 employee terminations. Further, the summary reported that sales quality and incentive gaming continued to dominate the complaint types with 707 cases pending resolution.
1st quarter of calendar year 2011	OCC's first quarter risk assessment summary for Wells Fargo stated that OCC was aware that there was no assessment of the risks and controls associated with the corporate goal of cross-selling eight products per household.
2nd quarter of calendar year 2011	On OCC's second quarter consolidated operational risk quarterly risk assessment for Wells Fargo, it was reported that Wells Fargo continues to pursue aggressive customer cross-sell goals, setting another record in second quarter 2010 with 6.06 products per retail banking households. Management's goal is eight products per customer. Incentive plan gaming remains the number one internal whistleblower allegation.

Date	Events
11/17/2010	OCC examiners reviewed Wells Fargo’s whistleblower program design as part of a July 2010 fraud risk management examination. Examiners evaluated case management practices via a judgmental sample and determined the following: • Case management and whistleblower program awareness efforts were satisfactory. • An OCC examiner reviewed a sample of 14 EthicsLine whistleblower referrals from across the spectrum of case types. A third party vendor for the bank performed the initial categorization of cases. OCC found that the initial categorization performed by the third party vendor was often wrong necessitating Wells Fargo’s investigators’ re-categorization to ensure accurate and consistent reporting to the audit and examination committee. • OCC examiners’ limited review found no issues with data quality or case dispositions. • PriceWaterhouseCoopers conducted a 2008 audit of EthicsLine processes and noted no material weaknesses.
12/19/2012	OCC, in conjunction with the Board of Governors of the Federal Reserve System, issued a supervisory letter on the examination of model risk management. OCC issued the following MRA relating to model risk management for appropriate incentives: • Management must take steps to ensure that appropriate incentives, including compensation practices, are in place to support an effective model risk management and governance framework.
Summer 2013	Wells Fargo’s regional banking sales and service conduct oversight team, as a part of its monitoring, generated a report identifying activity indicative of simulated funding across regional banks.
September 2013	Wells Fargo’s investigators conducted an initial investigation into its employees engaging in simulated funding. The first and second round of the initial investigation resulted in 35 and 21 employee terminations; respectively. In November 2013, Wells Fargo expanded its investigation into simulated funding across its retail banking. This expanded investigation resulted in additional employee separations (primarily terminations). At the conclusion of Wells Fargo’s investigations, 230 employees were terminated or choose to resign. • According to OCC examiners, OCC became aware of this investigation during a January 2014 meeting with Wells Fargo’s Chief Risk Officer, where they were following up on the December 2013 Los Angeles Times article. However, at that time OCC was only made aware of the 30 employees mentioned in the Los Angeles Times article. OCC did not become aware of the larger investigation, which resulted in 230 employee separations and 390 Suspicious Activity Reports filed until May 2015.

10/3/2013	The Los Angeles Times published an article titled, “*Wells Fargo accuses workers of opening fake accounts to meet goals,*” that discussed the following:
	• Wells Fargo fired about 30 branch employees in the Los Angeles region who the bank said had opened accounts that were never used and attempted to manipulate customer satisfaction surveys.
	• The pressure to meet sales goals at Wells Fargo was intense.
	  o The employees were trying to take shortcuts to meet sales goals. One of the fired employees said that in some cases, signatures were forged and customers had accounts opened in their names without their knowledge.
	  o A Wells Fargo employee stated that at times managers required workers to stay late to call their friends and family members if they failed to open enough accounts during the day.

Date	Events
12/21/2013	The Los Angeles Times published a second article titled, *“Wells Fargo's pressure-cooker sales culture comes at a cost,”* that discussed the following: • To meet quotas, Wells Fargo employees have opened unneeded accounts for customers, ordered credit cards without customers' permission and forged customers’ signatures on paperwork. • Wells Fargo recently fired about 30 southern California workers who "cheated to hit their sales goals” according to the bank. • The article referenced lawsuits filed in California by employees who claimed the bank forced employees to work unpaid overtime, in some cases to meet sales targets among other things.
1/16/2014	OCC issued a supervisory letter on the examination of Unfair or Deceptive Acts or Practices (UDAP). This was OCC’s first review of UDAP compliance risk management at Wells Fargo. The supervisory letter summarized the results from OCC’s November 2011 horizontal discovery review of UDAP. OCC delayed providing findings from the discovery review pending completion of several other OCC supervisory activities that also evaluated UDAP risk within various Wells Fargo lines of businesses. OCC issued the following MRA: • Management needs to develop and implement a comprehensive enterprise UDAP compliance risk management program.

1/16/2014	OCC issued a supervisory letter on Wells Fargo’s Community Banking's compliance with Section 5 of the Federal Trade Commission Act, 15 USC 45 (a)(1), which prohibits UDAP in, or affecting, commerce. OCC examiners did not perform transaction testing of UDAP customer complaints due to a delay in receiving complaints case notes.
	• The conclusion memorandum for this examination, dated November 1, 2013, states that examiners reviewed Wells Fargo’s retail bank incentive compensation program to determine whether it has features that encourage bankers to engage in aggressive or egregious sales practices to maximize sales/performance bonuses. Due to the complexity of the program and their limited examination staff, examiners were able to perform only a high-level review of the program. OCC examiners did not identify any program features that would encourage bankers to engage in aggressive or egregious sales practices to maximize sales/performance bonuses.
	  ○ OCC examiners reviewed UDAP risk and controls in the retail bank incentive compensation program and provided information about the controls in place to ensure that bankers are rewarded while minimizing egregious sales practices.
	  ○ Regarding monitoring sales practices and the sales incentive program, examiners did not perform transaction testing of employee allegations to assess the effectiveness of Wells Fargo’s investigation of the allegations and their impact on customers. Also, they did not review management reports generated by the EthicsLine relating to UDAP.
	  ○ Due to Wells Fargo’s delay in providing supporting documenting for complaint case notes, OCC did not perform transaction testing of UDAP customer complaints.

1st quarter of calendar year 2014	OCC’s first quarter 2014 risk assessment summary noted that the December 2013 Los Angeles Times article initially had some negative reputational impact. The article prompted Wells Fargo’s management to revamp the current retail sales model and strengthen practices so they better align with Wells Fargo’s vision and values.
February 2014	Wells Fargo’s Enterprise Risk Management Committee’s quarterly assessment of noteworthy risk issues for February 2014 identified sales conduct, practices, and the

Date	Events
	consumer business model to be of high impact to Wells Fargo with an increasing direction of risk. • According to OCC examiners, OCC acknowledged the level of risk and added an examination to their schedule for the 2015 cycle. In 2014, many of OCC's examiner resources were already allocated to high-priority areas. Wells Fargo's management portrayed the numbers of impacted employees as small and noted that they identified the situation internally and were addressing the matter through proactive monitoring.
9/3/2014	OCC issued a supervisory letter on the examination of talent management and compensation. OCC examiners determined that Wells Fargo met the spirit of OCC Heightened Expectations for talent management and compensation regarding the design of programs and processes. OCC issued the following MRAs: • Where there are severe adverse risk events for the bank, there should be a correlated number of covered employees that have adverse ratings in their risk management performance and a corresponding impact to incentive compensation. • Wells Fargo's Chief Risk Officer indicated he had discussions with individuals regarding adverse risk management performance. The Chief Risk Officer should document his discussions with senior executives regarding their adverse risk management performance.
Fiscal year 2015 (October 1, 2014 through September 30, 2015)	The fiscal year 2015 strategy noted reputation risk as high. Also, recent negative press regarding sales practices and cross-sell strategies in the Los Angeles area have negatively impacted the bank's reputation. The fiscal year 2015 strategy included the following examinations: • Community Banking operational risk examination • UDAP examination
11/10/2014	OCC issued "*OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of 12 CFR Parts 30 and 170*" (Heightened Standards) on November 10, 2014. • Heightened Standards established minimum standards for the design and implementation of a risk governance framework for large insured national banks, insured Federal savings associations, and insured Federal branches of foreign banks with average total consolidated assets of $50 billion or more and minimum standards for a board of directors in overseeing the framework's design and implementation. • The compensation and performance management programs under Heightened Standards should prohibit incentive-based payment arrangements, or any feature of any such arrangement, that encourages inappropriate risks by providing excessive compensation or that could lead to material financial loss.
4/3/2015	OCC issued a supervisory letter for its examination on Wells Fargo's community banking operational risk management. During this examination, OCC examiners evaluated Wells Fargo's community banking sales practices oversight instead of cross sell activities. OCC issued the following MRA: • Community Banking first line of defense risk management for sales practices: Community Banking lacks a formalized governance framework to oversee sales practices.
5/4/2015	The City of Los Angeles filed a lawsuit against Wells Fargo. The lawsuit claimed that Wells Fargo employees opened unauthorized accounts for customers.

Date	Events
	• According to OCC examiners, they immediately began an examination of enterprise-wide sales practices, including participation from enterprise risk management, operations and compliance teams.

6/26/2015	OCC issued a supervisory letter on the examination of enterprise sales practices. This supervisory letter summarizes the results of the examiners May 2015 ongoing supervision activity which was prompted by the City of Los Angeles lawsuit filed against Wells Fargo on May 4, 2015. OCC issued the following MRAs:
	• Tone at the top (corporate)
	  ○ As part of the enterprise sales practice governance build-out, management needs to revisit the bank's vision and values as they relate to cross-selling and ensure that communication of this strategy maintains balance.
	• Second line of defense – enterprise-wide sales practices oversight program
	  ○ Management needs to accelerate the build-out of an enterprise-wide second line of defense for enterprise sales practices. The risk governance framework outlining this cross-functional risk area needs to address governance, staffing, roles and responsibilities, reporting, and testing and validation.
	• Complaints
	  ○ Management needs to reassess the customer complaint process since it is critical to promoting compliance with laws and regulations and reducing reputation risk.
	• First line of defense - Community Banking group
	  ○ Consistent with the second line of defense, the first line of defense needs to establish a governance framework that clearly defines roles and responsibilities, committee governance, escalation protocols, risk appetite metrics and testing and validation functions.
	• Third line of defense
	  ○ Wells Fargo audit services needs to reassess their coverage of sales practices at an enterprise level and develop an enterprise risk management assessment process for sales practices.

7/13/2015	OCC issued a report of examination that stated that Wells Fargo needed to ensure that matters such as employee misconduct, actual or alleged, are fully and transparently investigated, harmed customers are remediated, bank employees are properly trained, incentive programs do not encourage alleged behavior, and controls are in place to identify and resolve potential or emerging issues.
7/18/2016	OCC issued a report of examination that addressed material deficiencies in sales oversight.
7/18/2016	OCC issued a supervisory letter for its ongoing review of sales practices at the bank. The supervisory letter cited that Wells Fargo engaged in unsafe or unsound banking practices.
7/29/2016	(b) (5) [redacted]

[28] The Comptroller of the Currency established the MMSRC in 2012 to further strengthen and enhance the review process for significant enforcement cases. The MMSRC reviews all large bank enforcement actions.

Date	Events
8/8/2016	OCC's MMSRC approved the issuance of a cease and desist (C&D) order against Wells Fargo.
8/11/2016	OCC issued a supervisory letter for its target examination on corporate risk and risk culture. The supervisory letter addressed Wells Fargo's risk culture, reputation risk and global ethics. OCC issued the following MRAs: • Risk culture assessment, execution, monitoring, and reporting ○ Among other things, this MRA requires that Wells Fargo management improves the framework and processes for holistically assessing, monitoring, and reporting on the bank's stated risk culture and its consistent execution and effectiveness. • Reputation Risk and Global Ethics and Integrity Reporting Structure ○ The bank must demonstrate the level of independence for reputational risk and ethics and integrity required for independent risk management by Heightened Standards.
8/19/2016	OCC's MMSRC approved the assessment of $35 million CMP against Wells Fargo.
9/8/2016	OCC assessed Wells Fargo a $35 million CMP and issued a C&D order that required the bank to make restitution to customers who were harmed by the bank's unsafe and unsound practices.
11/7/2016	(b) (8) [redacted]
4/19/2017	OCC's Enterprise Governance Supervision (EGS) division published a report summarizing the findings of its independent review of the Wells Fargo supervisory record. In its review, *"Lessons-Learned Review of Supervision of Sales Practices at Wells Fargo,"* EGS identified nine recommendations which included steps that OCC planned to take to improve its supervisory processes going forward with regards to the following areas: a comprehensive LBS complaint and whistleblower analysis and follow-up, effective supervision of controls around high risk incentives, quality MRA communication and follow-up, clear supervisory records, supervision of reputation risk, and an enterprise-wide whistleblower process.
9/21/2017	(b) (8) [redacted]

Date	Events
	(b) (8) [redacted]
10/13/2017	(b) (8) [redacted]
June 2018	OCC completed implementing all nine recommendations identified in its April 2017 *"Lessons-Learned Review of Supervision of Sales Practices at Wells Fargo."* OCC's implementation included, but was not limited to, updating the LBS and Compliance Management booklets from its Comptroller's Handbook to reflect LBS' enhancement of its core assessment process, which includes an analysis and assessment of complaints and whistleblower cases at least annually; and enhancing and implementing a new enterprise-wide whistleblower system that includes continued support for referring whistleblowers to a single office for recording, documenting, tracking, and following up on the whistleblower claims. Other corrective actions OCC described to us as being taken include (1) enhancing its supervisory strategy and associated quality control processes to include the review of canceled or deferred supervisory activities in subsequent strategy planning cycles, independent reviews by lead experts and risk specialists in the Systemic Risk Identification Support and Specialty Supervision unit during the strategy development process, and the implementation of risk escalation processes; (2) requiring staff to take MRA training and enhancing its MRA tracking tools; (3) updating its standard operating procedures and conducting training to ensure appropriate supervisory documentation is maintained; and (4) LBS enhancing its coordination and collaboration with other business units by regularly including them in meetings and expanding the membership of the Large Bank Risk Committee.
1/23/2020	OCC issued a notice of charges against five former senior Wells Fargo bank executives and announced settlements with the bank's former Chief Executive Officer and other members of the bank's operating committee. The notice of charges alleges these executives failed to adequately perform their duties and responsibilities, which contributed to the bank's systemic problems with sales practices misconduct from 2002 until October 2016. The notice also stated that certain former senior executives actively obstructed the OCC's examinations of the bank's sales practices by providing false, misleading, and incomplete written materials to the OCC during its review of sales practices at the bank. OCC ascertained that the material it received omitted such key information that would have aided

Date	Events
	in its understanding of the magnitude of the sales practices misconduct problem at Wells Fargo.

Appendix 3: Major Contributors to This Report

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Appendix 4: Report Distribution

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