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Fact Sheet for the Chairman, Subcommittee on Commerce, Consumer, and Monetary Affairs, Committee on Government Operations, House of Representatives

August 1990

INSPECTORS GENERAL

Office of Inspector General Operations at Financial Regulatory Agencies

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August 24, 1990

The Honorable Doug Barnard, Jr.
Chairman, Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

This report responds to your March 3, 1989, letter requesting information on the operations of the offices of inspectors general (OIGs) at five financial regulatory agencies: the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board,[1] and the National Credit Union Administration. You asked us to obtain data on all five of these organizations regarding: (1) their establishment and independence, (2) the types of work conducted, and (3) the extent of resources devoted to their audit and investigative efforts.

RESULTS IN BRIEF

With respect to independence, we found a potential problem at one of the five agencies relating to its organizational structure and OIG programmatic responsibilities. Specifically, at the National Credit Union Administration

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[1]On August 9, 1989, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Public Law 101-73) was passed. This act abolished the Federal Home Loan Bank Board (FHLBB) as of October 7, 1989. FHLBB's functions were divided among the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision, the Resolution Trust Corporation, and the Federal Housing Finance Board. The FHLBB office of inspector general personnel were transferred to the offices of inspectors general at FDIC and the Federal Housing Finance Board. This report provides information on FHLBB before it was abolished.

(NCUA) it was unclear whether the inspector general (IG) was actually reporting to the head of the agency, as required by law, and whether the OIG was performing prohibited programmatic functions. Based on discussions we had with NCUA officials, NCUA amended its written policies establishing the office of inspector general to clarify that the IG should report to the head of the agency. NCUA also amended its written policies to clarify that the office of inspector general should not carry out any programmatic functions.

We found that the federal financial regulatory agencies' audit groups largely focused their efforts on financial audits, many of which are related to the agencies' roles as insurers. The audit groups have generally conducted few audits of regulation and supervision issues.

As of March 31, 1990, staffing at the offices of inspectors general was 13 at the Board of Governors of the Federal Reserve System, 113 at the Federal Deposit Insurance Corporation, and 4 at the National Credit Union Administration. The Treasury office of inspector general had 9 staff dedicated to audit work at the Office of the Comptroller of the Currency. The Federal Home Loan Bank Board had 55 staff as of October 17, 1989, when it was abolished. In addition, some of these offices also supplemented their in-house resources by contracting for auditing services.

Appendixes I through V provide details for each agency on matters related to independence, types of work conducted, and resources.

BACKGROUND

The Inspector General Act Amendments of 1988 (Public Law 100-504) required the establishment of offices of inspectors general at the Department of the Treasury (parent agency of the Office of the Comptroller of the Currency) and at 33 designated federal entities including the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the National Credit Union Administration, and the Federal Home Loan Bank Board. Each of these five financial regulatory institutions had previously established some form of internal audit capability to review their operations. These offices then became the legislatively required offices of inspectors general.

Offices of inspectors general were established to create independent and objective units to (1) conduct and supervise audits and investigations relating to programs and operations of the various agencies, (2) provide leadership and coordination and recommend policies to promote economy, efficiency, and effectiveness and prevent and detect fraud and abuse in agency programs and operations, and (3) provide a means for keeping the head of the establishment and the Congress fully and currently informed of such issues.

The five financial regulatory agencies have the responsibility for supervising and regulating depository institutions such as commercial and savings banks, savings and loan associations, and credit unions.[2] Each regulatory agency has jurisdiction over certain categories of depository institutions. For example, the Office of the Comptroller of the Currency (OCC) is responsible for regulating federally chartered banks.[3] In addition to regulating depository institutions, FDIC and NCUA insure deposits, as did FHLBB before it was abolished.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to obtain data from the five entities discussed above on matters related to the independence of the office of inspector general, the types of work conducted, and the extent of resources devoted to the OIGs. We conducted our work in Washington, D.C., from March 1989 through March 1990.

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[2]Regulation involves the formulation and issuance of rules and regulations, under existing law, for the structure and conduct of banking. Supervision is concerned primarily with the safety and soundness of individual deposit institutions through continual oversight, e.g., examination.

[3]Treasury's office of inspector general provides staff dedicated to perform audit work at OCC. We obtained information on only those Treasury office of inspector general resources and activities related to OCC. However, we recently issued a report entitled, Inspectors General: Treasury's Office of Inspector General Properly Established (GAO/AFMD-90-70, June 14, 1990), which discussed the extent to which Treasury implemented the Inspector General Act amendments.

To obtain information related to independence, we reviewed documentation establishing the OIGs and interviewed officials of those offices. We focused on the entities' organizational structures and lines of reporting, OIG access to records, and any evidence of programmatic responsibility, which is prohibited by the Inspector General Act.

To obtain information on the types of work conducted by these OIGs and their predecessors, we obtained listings of reports issued during the last 4 calendar or fiscal years (1986 to 1989) from each agency. We also discussed the types of past work performed with officials of the OIGs. We looked at audit and investigative reports to verify the types of work performed.

We obtained information on the extent of resources devoted to OIG activities from documentation for each organization in terms of the number of personnel and funding for contract audits. We also discussed resources with OIG officials. This information was updated through March 30, 1990.

We discussed the contents of this report with OIG officials from the five financial regulatory agencies and included their comments where appropriate.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to interested parties and make copies available to others upon request. Please contact me at (202) 275-9454 if you or your staff have any questions concerning the fact sheet. Major contributors to this report are listed in appendix VI.

Sincerely yours,

Jeffrey C. Steinhoff
Director, Financial Management Systems
and Audit Oversight

Contents

ABBREVIATIONS

FDIC	Federal Deposit Insurance Corporation
FHLBB	Federal Home Loan Bank Board
FRB	Board of Governors of the Federal Reserve System
GAO	General Accounting Office
IG	inspector general
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OIG	office of inspector general

THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Board of Governors of the Federal Reserve System (FRB) supervises and regulates the federal reserve banks, those state-chartered banks that are members of the Federal Reserve System, and all bank holding companies. One of FRB's major responsibilities is the formulation of monetary policy.

ESTABLISHMENT OF OIG AND INDEPENDENCE

In July 1987, the Board of Governors of the Federal Reserve System established an office of inspector general and appointed an inspector general. In November 1988, the Board of Governors changed the OIG's charter as necessary to comply with the 1988 amendments to the Inspector General Act. The OIG reviews the activities of the Federal Reserve Board, but does not review the activities of the federal reserve banks since these banks are not considered federal institutions or part of the Federal Reserve Board. Each federal reserve bank has its own internal audit staff headed by a general auditor who reports to the bank's Board of Directors. The OIG has no oversight or policy authority over the federal reserve bank audit staffs, but can review Federal Reserve Board activities such as the examination process which affects the federal reserve banks. It also conducts audits and investigations related to Board programs performed at or by the reserve banks, such as the supervision and regulation of bank holding companies and state member banks.

The OIG is a separate office within the central organization of the Board of Governors of the Federal Reserve System. The inspector general reports directly to the Chairman of the Board of Governors. The Inspector General informed us that no one, including the Chairman, other Governors, or senior managers, had ever attempted to prevent or prohibit an OIG audit or investigation. In addition, the Chairman of the Board of Governors of the Federal Reserve System has stated that the OIG's charter, dated November 1988, lays out the duties and responsibilities of the OIG exactly as provided in the legislation.

TYPES OF WORK

From July 1987 until September 1989, the OIG issued 13 reports. The FRB OIG categorizes its work as audits, operations reviews, and investigations. According to OIG personnel, operations reviews are general management reviews of how well a single organizational entity is performing its functions and differ from an audit in that they are conducted over a 2-week period with the assistance of reserve bank staff, are limited in scope, and may not meet all government auditing standards.

The OIG's work included an operations review of the Office of the Secretary, an audit of a Board member's expenses, and a review of contingency planning efforts (plans to provide continuity of critical operations in unusual events or disasters). One operations review was conducted of the Division of Banking Supervision and Regulation. The Inspector General informed us that he believes an audit of a computer system, the Bank Holding Company Docket System, was related to supervision and examination issues.

From July 1987 until the end of September 1989, the FRB OIG completed 15 investigations based on complaints regarding possible violations of law or of the Board's standards of conduct. The investigations included allegations of conflicts of interest, theft, false statements, favoritism, nepotism, conspiracy to defraud, and gambling. As of September 30, 1989, seven cases led to administrative action by management and five resulted in reprimands.

STAFF RESOURCES

The FRB OIG was organized in 1987 with a staff of nine. For operations reviews, the OIG staff can be augmented by other personnel from the federal reserve banks, and occasionally consultants are hired to audit a particular program. As of March 31, 1990, OIG staff totaled 13 (10 professional and 3 clerical employees) and an attorney-advisor from FRB's legal division.

From July 1987 to December 31, 1989, contract audit services totaled about $100,000. These services primarily included auditing and reporting on the Board's and the Federal Financial Institutions Examination Council's[4] financial statements.

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[4]The Federal Financial Institutions Examination Council is a group composed of members from the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the National Credit Union Administration. The Council was created by Public Law 95-630 to establish more uniform examination standards for depository institutions. FRB provides administrative support to the Council.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

The Office of the Comptroller of the Currency (OCC), a component of the Department of the Treasury, charters, regulates, and supervises federally chartered banks.

ESTABLISHMENT OF OIG AND INDEPENDENCE

The Inspector General Act Amendments of 1988 required that an office of inspector general be established in the Department of the Treasury by April 16, 1989. On April 14, 1989, Treasury's administratively organized OIG was redesignated as a statutory OIG to comply with the 1988 amendments. The inspector general is appointed by the President, approved by the Senate, and reports to the Secretary and Deputy Secretary of the Treasury. The President nominated and the U.S. Senate confirmed the Inspector General, who was sworn into office on November 22, 1989.

The legislation provided the IG with the authority to initiate and conduct audits and investigations and gave the IG access to all required audit material. Treasury order 114-01, dated May 16, 1989, incorporated the requirements of the 1988 amendments into departmental policies. As stated previously, this fact sheet focuses only on Treasury IG activities related to OCC.

OCC office of inspector general officials advised us of one potential access-to-information issue which had been resolved in the past. During 1986 and 1987, the Comptroller of the Currency was uncertain as to whether the limitations in the Right to Financial Privacy Act prevented OCC from providing bank customer information to the OIG. In January 1988, following a review by Treasury's General Counsel, a memorandum of understanding was signed between the Comptroller of the Currency and the IG, which gave the OIG access to OCC's bank customer information and provided protection against improper disclosure. According to OIG officials, OCC managers have been responsive to OIG requests for information since the memorandum of understanding was signed.

Documentation establishing the statutory OIG does not prescribe any programmatic responsibility as part of the OIG functions, and Treasury OIG employees auditing OCC operations said they had never been assigned any program responsibilities.

TYPES OF WORK

During calendar years 1986 through 1989, Treasury auditors issued 23 audit reports on OCC activities. Thirteen of the audits were operational audits of OCC's nonfinancial administrative activities, such as accountability for nonexpendable personal property and controls over access to a mainframe computer. Eight audits focused on financial-related issues, including several reports on examinations of internal control systems for accounting and transaction processing. Two audits of OCC's bank supervisory and regulatory missions were completed during the period. Treasury OIG officials informed us that the problem with access to bank customer information discussed earlier, as well as staff inexperienced with OCC regulatory activities, precluded the OIG from auditing OCC's bank supervision and regulatory activities during 1986 and 1987.

Treasury OIG investigators, who are not dedicated to OCC work as auditors are, completed 23 investigations of OCC activities during calendar years 1986 through 1989. These resulted in six convictions as well as several resignations, reprimands, and referrals to other organizations.

STAFF RESOURCES

As of March 31, 1990, the Treasury OIG had nine staff dedicated to auditing OCC (eight professional and one clerical employee). OIG officials informed us that resources dedicated to OCC in 1986 and 1987 averaged only four professionals. Additionally, OIG officials informed us that audit personnel from Treasury regional IG offices are currently auditing OCC operations. Treasury OIG auditors reviewing OCC activity did not contract for audit services during the 4 years we reviewed.

FEDERAL DEPOSIT INSURANCE CORPORATION

The Federal Deposit Insurance Corporation (FDIC) supervises and insures state-chartered banks that are not members of the Federal Reserve System. In addition, FDIC insures other state-chartered banks which meet prescribed requirements for insurance and all federally-chartered banks. With the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Public Law 101-73), FDIC also assumed responsibility for insuring savings and loan associations.

ESTABLISHMENT OF OIG AND INDEPENDENCE

On March 14, 1989, the Federal Deposit Insurance Corporation redesignated its Office of Corporate Audits and Internal Investigations as the office of inspector general in compliance with the Inspector General Act Amendments of 1988. Documentation establishing the OIG states that the IG reports to and is under the general supervision of the Chairman of FDIC's Board of Directors. The documentation does not assign any programmatic responsibilities to the OIG. OIG officials we interviewed stated that their independence had not been impaired.

TYPES OF WORK

The FDIC audit group issued 343 audit reports during the calendar years 1986 to 1989. The majority of these audit reports, 264, were liquidation and receivership audits. During this period, FDIC audit reports concentrated on how well FDIC's Division of Liquidation managed and disposed of assets FDIC acquired from failed banks. OIG officials informed us that they concentrated their audit efforts in this area because of the high number of bank liquidations during this 4-year period. Other OIG audits were directed toward internal corporate activities, such as financial, electronic data processing, and management evaluations. The IG informed us that he had not performed a comprehensive review of supervision and examination issues during the past 4 years. He also stated that seven OIG audits were conducted in the past 4 years that related to supervision and examination issues: a study of the agency's training program, agreed-upon procedures reviews of three specific financial assistance agreements, and three reviews of computer systems.

FDIC OIG investigative personnel completed 43 investigations of alleged employee and contractor wrongdoing during this 4-year period. Irregularities investigated concerned such matters as bulk sales of loans, travel vouchers, missing collateral, release of confidential information, and conflict of interest. For example, during the 6-month period ending September 30, 1989, OIG investigations resulted in one resignation, three letters of reprimand, one indictment, and one conviction.

STAFF RESOURCES

As of March 31, 1990, the OIG staff totaled 113 (102 auditors and investigative personnel and 11 clerical personnel). The number of FDIC audit personnel stayed relatively constant at about 55 to 59 employees from 1986 until FHLBB was abolished in October 1989. FHLBB OIG staff were transferred to FDIC.

To supplement its own audit staff, the FDIC OIG contracts for audit services. Contract audit services cost $5.9 million for the 4-year period from 1986 to 1989.

FEDERAL HOME LOAN BANK BOARD

Prior to being abolished in October 1989, the Federal Home Loan Bank Board (FHLBB) regulated and supervised federally chartered savings and loan associations and federally chartered savings banks. It also operated the Federal Savings and Loan Insurance Corporation which provided deposit insurance for all federally chartered savings and loan associations and those state-chartered associations which met prescribed requirements for federal insurance. FHLBB's functions were transferred to FDIC, the Office of Thrift Supervision, the Resolution Trust Corporation, and the Federal Housing Finance Board. Before it was abolished, FHLBB established an OIG headed by an inspector general who reported to, and was under the supervision of, the Chairman of the Board of Directors of the Federal Home Loan Bank Board.

TYPES OF WORK

From the beginning of 1986 until its dissolution, the FHLBB audit group completed 324 audits. These audits were primarily financial. One audit completed in June 1988 was a review of allegations concerning supervision and examination policies and practices at the Federal Home Loan Bank of Dallas.

The FHLBB audit group completed 28 investigations from 1986 through September 30, 1989. These investigations included cases involving allegations concerning changing of bid figures, conflict of interest, bribery, stolen property, and unauthorized disclosure of information.

STAFF RESOURCES

Before it was abolished in October of 1989, the FHLBB OIG had 55 auditors, investigators, and clerical personnel who were later transferred to the FDIC OIG. Expenditures for contract audit services totaled about $19 million for fiscal years 1986 to 1989. Contract audit work included audits of mergers, acquisitions, pass-through receiverships, financial assistance agreements, and receiverships.

NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) charters, regulates, supervises, and insures all federally chartered credit unions, and regulates and supervises (jointly with state authorities) state-chartered credit unions that apply for and receive NCUA insurance.

ESTABLISHMENT OF OIG AND INDEPENDENCE

The National Credit Union Administration established an Office of Internal Audit in 1973. From 1985 to March 1989, the Director of Internal Audit was appointed by the NCUA Board and reported to the Chairman through NCUA's Executive Director. In March 1989, NCUA established an office of inspector general as required by the Inspector General Act Amendments. The Director of the former Office of Internal Audit became the Inspector General and staff members of the Office of Internal Audit were administratively transferred to the office of inspector general.

We were concerned about the IG's independence because the Board's March 1989 memorandum establishing the OIG still required that the Inspector General keep NCUA's Executive Director informed of OIG activities. Additionally, subsequent to establishing the OIG, the NCUA Executive Director prepared and signed a performance appraisal for the IG. The Inspector General Act amendments mandated that the NCUA IG report to and be supervised by only the head of the agency. We brought this matter to the attention of NCUA officials and, in December 1989, the NCUA Board changed its March 1989 memorandum to ensure that the IG reports to the Board and not to the Executive Director. Other language in the memorandum was also changed requiring the Chairman, on behalf of the Board, to prepare the IG's performance appraisals.

The Inspector General Act Amendments of 1988 prohibit assigning any program operating responsibility to the IG. Prior to implementation of the 1988 amendments, the NCUA Board assigned the responsibility for processing credit union appeals to the Internal Auditor and continued to assign them to the newly established OIG. These credit union appeals are reviews of regional office director's decisions involving charter and membership eligibility issues. The Office of Internal Audit initially processed only a few of these appeals a year; in 1989, the OIG processed two or three appeals a month.

Credit union appeals were made a part of the OIG's responsibility based on recommendations made by the Executive Director and the General Counsel. Their rationale was that the OIG was not involved in the initial decisions and is not involved in creating or implementing agency policy. However, since credit union charter approval and membership decisions are regulatory functions delegated to the regional offices by the NCUA Board, these credit union appeals could be considered to be program operating responsibilities. We discussed this issue with the IG and the NCUA General Counsel. The NCUA Board reconsidered the issues, and, in December 1989, this function was transferred from the OIG to the NCUA Office of General Counsel.

TYPES OF WORK

NCUA auditors completed four financial reports and four program reports during the 4 fiscal years from 1986 to 1989. These reports included financial audits, program audits, investigations, and special reports. The program audits included two Freedom of Information Act compliance audits and two program audits of liquidation activities. No audit reports were done during fiscal years 1986 to 1989 which focused on NCUA's supervision and examination responsibilities.

NCUA completed 14 investigations from fiscal years 1986 to 1989. These investigations included cases relating to complaints about the conduct of examiners, travel claim fraud, and false time and attendance reports. For instance, during the April to September 1989 time period, four investigations were completed resulting in disciplinary action against one employee.

STAFF RESOURCES

NCUA's audit staff has varied from one to six members from calendar years 1973 to 1989. As of March 31, 1990, the NCUA OIG had four staff members.

Total costs for contract audit services for fiscal years 1986 to 1989 were about $119,000.

APPENDIX V

MAJOR CONTRIBUTORS TO THIS REPORT

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