FDIC
Federal Deposit Insurance Corporation
Washington, D.C. 20434

Congressional Relations and Evaluations
Office of Inspector General

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MEMORANDUM TO: Stephen M. Cross
Director, Division of Compliance and Consumer Affairs

Fred Selby
Director, Division of Finance

FROM: Stephen M. Beard
Director, Office of Congressional Relations and Evaluations

SUBJECT: *The Division of Compliance and Consumer Affairs' Reporting of Examinations and Activities in FDIC Quarterly Performance Reports* (EVAL-00-002)

The Office of Congressional Relations and Evaluations (OCRE) completed a review of the Division of Compliance and Consumer Affairs (DCA) system and underlying data supporting Government Performance and Results Act of 1993 (Results Act or GPRA) performance reporting of compliance and Community Reinvestment Act of 1977 (CRA) examinations, and community affairs and outreach activities. This evaluation was the second in a series of reviews planned by OCRE to address the Office of Inspector General review requirements, related to verifying and validating selected data sources and information collection and accounting systems that support agency strategic plans, performance plans, and performance reports, in the pending amendments to the Results Act. Our evaluation focused on three of DCA's performance goals for 1998, namely:

(1) Initiate a percentage of 1,610 compliance and CRA examinations according to an agreed-upon schedule.
(2) Conduct 94 banker and outreach and education activities in accordance with workload assumptions.
(3) Conduct presentations at or facilitate 44 meetings of banker and community/industry groups.

The objective of our review was to determine the adequacy and reliability of the information system and data supporting DCA's performance reporting of compliance and CRA examinations, and community affairs and outreach activities.

SUMMARY OF REVIEW

DCA established 1998 goals, targets, and performance indicators for compliance and CRA examinations as well as community affairs and outreach activities. DCA also included information in FDIC's 1998 quarterly performance reports to illustrate its progress in meeting these goals and objectives.

DCA identified the system and information sources used to validate and verify performance data, as required by the Results Act. For the compliance and CRA examinations goal, DCA used the "Bank Start Date" in the Compliance Statistical System (CSS) to determine whether targeted performance levels were achieved during each of the quarters in 1998. CSS is the primary system of record for capturing and reporting data on DCA's examination activities.

Our work and conclusions were limited to the general and application controls relevant to the "Bank Start Date" data element in CSS. In addition, we reviewed a prior FDIC *Independent Security Review Evaluation Report for the Compliance Statistical System (CSS)* that identified a number of control weaknesses related to CSS and we did not evaluate the resulting corrective actions. Accordingly, we could not provide complete assurance as to the overall reliability of CSS.
With regard to the "Bank Start Date" data element, nothing came to our attention during our testing to suggest that application controls over this data element were not in place and working. However, CSS users were able to change the "Bank Start Date" data element until 90 days following completion of the examination. In addition, we were precluded from determining whether the integrity of the date was retained throughout CSS processing because there were no source documents supporting that date at the time it was originally input into CSS. The impact of these findings on Results Act reporting was mitigated by reasonableness tests and edit checks that DCA established. Thus, we could provide assurance that the "Bank Start Date" data element was a reliable source for reporting examination activities in the quarterly performance reports. The "Bank Start Date" is used for other purposes by DCA where the precision of the date is necessary and important. Accordingly, we recommended that DCA identify an appropriate source document to support the "Bank Start Date" and strengthen application controls over that data element in the new system, System of Uniform Reporting of Compliance and CRA Examinations (SOURCE), that will replace CSS.

We determined that the total number of examination starts reported for 1998 was four less than the number shown in a CSS printout used as supporting documentation—a difference of less than 1 percent. Specifically, DCA provided us a CSS listing of examination starts for 1998 dated May 4, 1999 that showed 1,993 examination starts, compared to 1,989 that were reported by DCA. DCA officials attributed the difference in numbers to the inability of CSS to provide a historical record of data updates, which prevents the system from always portraying the same data as of a specific date. Apparently, bank start dates included in the May 1999 listing were added to CSS after information for the last 1998 quarterly performance report was submitted. With respect to the accuracy of CSS examination start information, 86 of the 90 compliance and CRA examination start dates in the sample of examinations that we reviewed were adequately supported.

We could not be certain that the numbers of community affairs and outreach activities reported in FDIC's 1998 quarterly performance reports were accurate. To assess progress toward achieving the community affairs and outreach goals, DCA relied on information provided by DCA regional community affairs officers in the Quarterly Activity Reports. However, DCA headquarters' supporting documentation for the quarterly performance reports did not specifically identify which events in the Quarterly Activity Reports were included in the total numbers of community affairs and outreach activities reported in the quarterly performance reports.

With respect to the accuracy and reliability of the Quarterly Activity Reports, we found that most of the 113 banker outreach and education activities and 155 banker meetings reported in 1998 were

supported by documentation provided to us by the regional community affairs officers. Thus, we could provide assurance that the Quarterly Activity Reports for 1998 were reliable for GPRA reporting purposes. Although the events themselves were generally supported, we found that the numbers of participants were not sufficiently supported for 47 percent of the 113 outreach activities and 36 percent of the 155 banker meetings. We also found that the results of events identified in the Quarterly Activity Reports were not adequately supported, in the documentation we were provided, for 26 percent of the 113 outreach activities and 155 banker meetings. Further, we could not find support in the documentation provided to us by the regional community affairs officers for some of the community affairs and outreach information highlighted in FDIC's quarterly performance reports.

DCA changed the focus of the community affairs and outreach goal for 1999 and 2000 to be more outcome-oriented, and the goal no longer relates to a specific number of events. However, DCA factored outreach events and numbers of participants in measuring performance for its 1999 outcome-oriented consumer rights goal. Accordingly, we recommended that DCA take actions that would ensure community affairs and outreach activities, participants, and results are more sufficiently documented.

We provided a draft of this report to DCA and the Division of Finance (DOF) for comment. DOF provided comments through an electronic mail message, and we incorporated its comments in this final report. We received DCA's written response on February 3, 2000, to our draft report. The Director, DCA, provided the response and agreed with recommendations 2, 3, and 4 of the draft report. For those three recommendations, the Director's response, together with actions taken and planned and information we obtained after receiving the response, provided the requisite elements of a management decision. The Director disagreed with recommendation 1, but provided sufficient information on DCA's position to warrant a management decision. DCA's written response is included in its entirety as Appendix I of this report. Appendix II presents our assessment of DCA's responses to the recommendations and shows that we have a management decision for each of the four recommendations.

SCOPE OF REVIEW

To accomplish our objective, we:

- Reviewed FDIC's Strategic Plan, 1998 and 1999 annual performance plans and 1998 quarterly performance reports. We also reviewed second and third quarter 1999 quarterly performance reports to determine whether the numbers of events and participants were considered in reporting progress for DCA's revised goals for community affairs and outreach.
- Reviewed DCA's 1998 Annual Performance Plan.
- Interviewed DCA officials in headquarters, New York Regional Office, Kansas City Regional Office, Baltimore Field Office, Manhattan Field Office, Minneapolis Field Office, and Overland Park Field Office about compliance and CRA examinations and community affairs and outreach activities.
- Identified systems used by DCA for tracking and reporting compliance and CRA examinations, and community affairs and outreach activities; assessed the reliability of those systems relevant to the elements used for tracking and reporting performance toward the three goals reviewed; and tested

selected system controls.

- Reviewed DCA's processes for reporting performance results for the three goals selected for review.
- Reviewed three DCA internal control review reports.
- Reviewed the Division of Information Resources Management (DIRM) *Independent Security Evaluation Report for the Compliance Statistical System (CSS)*.
- Reconciled compliance and CRA examination activity reported in quarterly performance reports to information contained within the system of record.
- Confirmed performance reports, systems information, and regional reporting data with headquarters, regional, and field office staff.
- Reviewed examination working papers and files for 90 of the 150 examinations started by the Baltimore, Manhattan, Minneapolis, and Overland Park Field Offices in 1998. Our sample consisted of:
  (1) Baltimore Field Office: reviewed 19 of 19 examinations started in 1998.
  (2) Manhattan Field Office: reviewed 24 of 24 examinations started in 1998.
  (3) Minneapolis Field Office: judgmentally selected for review 23 of 33 exams started in 1998.
  (4) Overland Park Field Office: judgmentally selected for review 24 of 74 exams started in 1998.
- Reviewed Community Affairs 1998 Quarterly Activity Reports for all eight regional offices: Atlanta, Boston, Chicago, Dallas, Kansas City, Memphis, New York, and San Francisco.
- Reviewed documentation provided by the regional offices to support 1998 community affairs and outreach activities.
- Reconciled community affairs and outreach activities reported in quarterly activity reports to information contained within the Quarterly Activity Reports.

We conducted our review from May 1999 through December 1999 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

BACKGROUND

The Results Act is the primary legislative framework through which Federal agencies are required to set strategic goals, measure performance, and report on the degree to which goals were met. The Results Act seeks to improve the efficiency, effectiveness, and public accountability of Federal agencies as well as improve congressional decision-making. GPRA requires Federal agencies to:

- Prepare strategic plans that cover a period of at least 5 years and that include a mission statement, general goals and objectives, and describe how the agency intends to achieve those goals through its activities and through its human, capital, information, and other resources.
- Submit to the Office of Management and Budget (OMB), an annual performance plan to link the strategic plan goals to what managers and employees do day-to-day, and

- Submit to the President and appropriate congressional committees an annual performance report for the previous fiscal year.

In November 1997, legislation was introduced in Congress to amend certain provisions of the Results Act. The legislation proposed requiring agency strategic plans to include a separate assessment by the

inspectors general and agency management of the adequacy and reliability of the information and accounting systems supporting the agencies' strategic plans and performance plans and reports. The House of Representatives passed the bill in March 1998 requiring the inspector general of each agency to develop and implement a plan to review their agency's implementation of the Results Act. On October 7, 1998, the House instructed agency inspectors general to implement the review plans envisioned in the bill irrespective of whether the bill becomes a law. Among other things, this bill requires the:

> "Verification and validation of selected data sources and information collection and accounting systems that support agency performance plans and performance reports and agency strategic plans…"

FDIC developed a strategic plan for the period 1998 through 2003, and performance plans for 1998 and 1999. The FDIC Strategic Plan contains goals and objectives that have a 6-year strategic focus. It is implemented through the Annual Performance Plan that is augmented by individual FDIC division and office performance plans.

Under the performance reporting process, each FDIC division is responsible for gathering and reporting on their respective sections of the performance plan. Each division submits performance information to DOF's Business Planning Section. DOF reviews the information for reasonableness and consistency, combines performance report submissions from each division into a single quarterly performance report, and presents the report to FDIC's Operating Committee.

RESULTS OF REVIEW

Reliability of Information System for Tracking and Reporting Compliance and CRA Examinations

DCA had identified a system—CSS—used to validate and verify performance data, as required by the Results Act. We reviewed general and application controls relevant to the "Bank Start Date" data element in CSS for compliance and CRA examinations performance reporting. The Division of Information Resources Management (DIRM) issued a report in August 1998 that identified a number of control weaknesses related to CSS, and we did not evaluate the resulting corrective actions. Accordingly, we could not provide complete assurance as to the overall reliability of CSS. With regard to the "Bank Start Date" data element, nothing came to our attention during our testing to suggest that application controls over this data element were not in place and working. However, anyone having access to CSS could change the "Bank Start Date" in the system until 90 days after examination completion. In addition, we were precluded from determining whether the integrity of the "Bank Start Date" was retained throughout CSS data processing because there were no source documents supporting that date at the time it was originally input into CSS. The impact of these findings on Results Act reporting was mitigated by reasonableness tests and edit checks that DCA established. Thus, we could provide assurance that the "Bank Start Date" in CSS was reliable for purposes of performance reporting. The "Bank Start Date" is used for other purposes by DCA where the precision of the date is necessary and important. For that reason, we recommended that DCA identify an appropriate source document to support the "Bank Start Date" and strengthen

application controls over that data element.

The Results Act requires each agency to prepare an annual performance plan covering each program activity set forth in the agency budget. Among other things, performance plans should describe the means to be used to verify and validate measured values of actual performance. On June 23, 1997, OMB issued Circular No. A-11, Part 2, *Preparation and Submission of Strategic Plans and Annual Performance Plan.* Section 220.13, *Verification and Validation*, states:

> The annual performance plan should include a description of how an agency intends to verify and validate the measured values of actual performance. The means used should be sufficiently credible and specific to support the general accuracy and reliability of the performance information that is recorded, collected, and reported. Agencies have discretion in determining the method of verification and validation to be used. Although GPRA does not prescribe use of any particular method, technique, or organizational entity, agencies should continue relying on established procedures, such as an audit of financial performance, for certain goals and indicators."

One of FDIC's 1998 GPRA Strategic Goals was for DCA to administer the Corporation's examination and enforcement programs for evaluating compliance by FDIC-supervised institutions with consumer protection and fair lending laws, including the CRA. The 1998 annual performance goal and target for DCA was to initiate a percentage of 1,610 compliance and CRA examinations according to an agreed-upon schedule.

According to FDIC's 1998 Annual Performance Plan, CSS is the primary system of record for capturing and reporting data on DCA's examination activities. CSS collects, stores, and reports on bank examination compliance ratings and findings, and on regional and headquarters office review processes. CSS also records and reports on schedules and phases of bank compliance examinations. DCA used the "Bank Start Date" data element of CSS to report the number of compliance and CRA examinations initiated in each quarter of 1998. To assess the reliability of CSS, we obtained an understanding of system controls, their purposes, and whether they were operating properly. System controls consist of general and application controls.

General and Application Controls

General controls include organization and management controls, security controls, and system software and hardware controls. Application controls are those methods and procedures designed for each application to ensure the authority of data origination, the accuracy of data input, integrity

of processing, and verification and distribution of output. We reviewed general and application controls relevant to the "Bank Start Date" data element in CSS.

With respect to adequacy of general controls, FDIC uses the System Development Life Cycle (SLDC) process to develop new automated information systems and enhance or maintain existing systems. Formal procedures for requesting, approving, testing, and implementing system changes are contained in FDIC's *System Development Life Cycle Manual*, Version 3.0, dated July 1997. According to the CSS Program Manager, a modified version of the SDLC requirements has been used for CSS redesign efforts.

As part of the FDIC Information Technology Security Risk Management Program, DIRM conducted an Independent Security Review of CSS that addressed both general and application controls. An Independent Security Review is a comprehensive assessment of a system application's technical, administrative, personnel, and physical security features and the FDIC's compliance with security and integrity requirements for that application. In August 1998, DIRM issued its *Independent Security Review Evaluation Report for the Compliance Statistical System (CSS)* and found that contingency planning, physical security, and environmental security for the CSS host facility, FDIC's Virginia Square Data Center, met Federal and FDIC requirements. However, the report identified findings in 12 areas including: management control measures, SDLC, configuration management, system access control measures, and data integrity. For example, in the area of SDLC, DIRM concluded that the security-related documentation required by FDIC's SDLC methodology was incomplete for the risk assessment and security requirements for the CSS application, and recommended that the requisite documentation be prepared. In the area of data integrity, DIRM concluded that there were insufficient assurances that integrity controls were sufficiently "robust to protect CSS data from inadvertent or malicious disclosure, alteration, or destruction." In May 1999, DCA provided a corrective action plan to DIRM addressing the recommended control measures. We did not assess the adequacy of DCA's corrective actions. Thus, we could not provide complete assurance as to the overall reliability of CSS.

According to the CSS Program Manager, access to CSS is limited to compliance examiners, examination review staff in the regional offices, and review staff in headquarters. In addition to FDIC bank examiners, certain employees of the Division of Supervision and the Office of Inspector General have been granted access authority to the system. DCA's CSS User Guide states that obtaining access to the system requires contacting the appropriate Region or Division security officer.

CSS data can be entered online to the FDIC mainframe computer located at the Virginia Square Data Center, or into laptop computers, and then transferred to the mainframe computer through the field or regional office local area networks. When a laptop computer is used, the data is entered into a standard FDIC Compliance Data Entry Form (DEF). After initiating the formal bank examination, compliance examiners record information on the DEF, and following examination completion, forward the DEF to regional offices for review. The "Bank Start Date" is reflected on the DEF. According to the CSS Program Manager, the DEF generated at the end of an examination is DCA's means of ensuring that CSS data are accurate.

DCA's CSS User Guide includes procedures for data collection, input, and error handling. Instructions for preparing the DEF are outlined in Appendix C1, "Compliance Statistical System Program User Guide," of the *FDIC Compliance Examination Manual*.

Data failing to meet CSS input requirements are identified online through various system edit checks. For example, CSS will not allow a future date to be entered as the "Bank Start Date." DCA's regional offices monitor the "Bank Start Dates" and validate the dates on a weekly basis before DCA headquarters generates its monthly activity reports. There was no requirement for supervisory approval of information before input to CSS. The approval occurred during supervisory review of compliance and CRA examination reports.

As mentioned previously, DCA used the "Bank Start Date" data element of CSS to report the number of compliance and CRA examinations started in each quarter of 1998. The "Bank Start Date" can be changed by anyone having access to CSS until 90 days after the examination report is issued to the financial institution. To test the reliability of this control, we asked the administrative personnel responsible for entering the data into CSS at two field offices and one regional office to try changing the "Bank Start Dates" for three 1998 examinations. The administrative personnel received error messages indicating that the "Bank Start Date" was a protected field and could not be changed. The examinations included in this test had been closed for more than 90 days.

There was no source record for us to use to validate the "Bank Start Date" at the time of its original input into CSS. As a result, we could not compare actual source data to input and output reports to determine whether the integrity of the "Bank Start Date" was retained throughout CSS data processing. Because the "Bank Start Date" can be updated, if needed, up to 90 days following the completion of a compliance examination, we asked DCA officials what assurances they had that the examination starts reported for 1998 were accurate. To verify and validate performance data, DCA headquarters officials told us that they analyzed CSS data collected, specifically the "Bank Start Date," to determine if targeted performance levels were achieved during the reporting period. During the analysis, DCA staff performed checks of reasonableness on the examination start dates in CSS. System edit checks and data field requirements also played a part in maintaining the integrity of CSS data. These features were designed by DCA and DIRM to reduce the risk of CSS capturing inaccurate or illogical data.

DCA officials told us that, while they did not audit CSS data, they continuously monitored the data for accuracy, including the “Bank Start Date,” in preparation for weekly, monthly, and quarterly reports on examination starts submitted to senior management. DCA's internal control reviews of the regional offices also served as a means of monitoring CSS data. CSS data verifications were performed on a limited sample of examinations during the internal control reviews. We reviewed three internal control review reports issued in 1998. One report identified two examples of CSS data entry forms reflecting examination start dates that were different than the dates shown in a section of the Compliance Report of Examination. One report identified three instances where the reports of examination had dates of examination that did not coincide with the DEF.

DCA officials told us they believed the edit checks and reasonableness tests they had implemented were sufficient to ensure the integrity of the “Bank Start Date” was maintained for purposes of reporting quarterly performance of examination goals. Nothing came to our attention during our review to suggest that these controls were not working as intended. As discussed in the next section, we determined that the total number of examination starts reported for 1998 was four less than the number shown in a CSS printout used as supporting documentation—a difference of less than 1 percent.

Further, we found documentation in working papers and files to support 86 of the 90 examination start dates (96 percent) that we reviewed. Thus, based on DCA's controls and our test results, we could provide assurance that the "Bank Start Date" data element was a reliable source for reporting examination activities in the quarterly performance reports.

However, the "Bank Start Date" is used for other purposes by DCA where the precision of the date is necessary and important. Specifically,

- The Bank Start Date" constitutes the "official" examination date and is the report date for the Compliance Reports of Examination and the CRA Performance Evaluation Reports that are transmitted to the financial institutions under review.

- The "Bank Start Date" is used to calculate the next examination date for the financial institution.

Given the significance of the "Bank Start Date," we recommended that DCA identify an appropriate source document to support the "Bank Start Date" and strengthen application controls over that data element. Because DCA was developing a new system, SOURCE, to replace CSS, we did not recommend any changes to CSS. DCA should ensure that its new system, SOURCE, includes data integrity control measures to protect the official compliance and CRA examination date from unnecessary or unauthorized alteration.

Accuracy of Reported Examination Activity and Review of Examination Working Papers and Files

We determined that the total number of examination starts reported for 1998 was four less than the number shown in a CSS printout used as supporting documentation—a difference of less than 1 percent. We also found that, with a few exceptions, the compliance and CRA examination start dates in the examinations we reviewed were accurate and adequately supported.

In FDIC's Fourth Quarter 1998 Performance Report, DCA reported that 1,989 compliance and CRA examinations were started in 1998. We requested a listing of the examination starts for 1998, and DCA officials provided us with a CSS printout, dated May 4, 1999, that showed a total of 1,993 examinations started in 1998. We tried to reconcile the numbers, but DCA officials told us that 1,989 was the correct number of examinations started in 1998. The officials explained that CSS does not have the capability to "freeze" or archive data to provide a historical record of the updates. When CSS data is updated, the transaction cannot be reconstructed from inception to completion. Thus, CSS reports showing data as of a specific date may not always produce the same results. Therefore, any updates to 1998 examination starts entered into CSS after December 31, 1998, would have been included in the May 4, 1999 printout that we received. DCA officials attributed the difference of four examinations (1,993 examination starts reflected in the May 4, 1999 printout compared to the 1,989 examination starts reported in FDIC's Fourth Quarter 1998 Performance Report) to this CSS limitation. DCA recognized that CSS's inability to maintain historical records is a limitation of the system and requested that the new system, SOURCE, have historical data capabilities.

For the compliance and CRA examinations goal, DCA used the "Bank Start Date" data element in

CSS to determine if targeted performance levels were achieved during each of the four quarters in 1998. To test the "Bank Start Date" in CSS, we visited four field offices: Baltimore, Manhattan, Minneapolis, and Overland Park. DCA had no source record to validate the "Bank Start Date" at the time of its original input into CSS. As a result, we relied on a variety of documents we located in the examination working papers and files for our sample of 90 of the 150 examinations started by the four field offices. The documents that we reviewed included:

- Entrance Conference agenda,
- Entrance Conference write-up, when available,
- Timesheets documented in the working papers, when available,
- Compliance Report of Examination,
- CRA Performance Evaluation Report, and
- CSS data input sheets, when available.

We especially relied on the Compliance Report of Examination and the CRA Performance Evaluation Report because the *FDIC Compliance Examination Manual* contained a provision that these reports include the date the examination staff entered the institution for the review. This date is the "Bank Start Date" in CSS.

We found documentation in the working papers and files to support 86 of 90 examination start dates that we reviewed. However, we noted the following exceptions:

- Two instances in which the date on the Compliance Report of Examination differed from the CSS "Bank Start Date."
- Two instances in which the date on the Compliance Report of Examination and the CRA Performance Evaluation Report differed from the CSS "Bank Start Date."

In our review of the four field offices' records, we found one examination that was not included in the CSS printout of all examinations started in 1998. CSS reflected a January 8, 1999 "Bank Start Date." However, most of the documentation in the working papers and files, including the Compliance Report of Examination and the CRA Performance Evaluation Report, indicated a bank start date of December 31, 1998. DCA officials stated that this examination would have been included in 1999 performance results because of the January 8, 1999 "Bank Start Date."

Reliability of Data Supporting DCA Community Affairs and Outreach Activities

We could not determine whether the numbers of community affairs and outreach activities reported in FDIC's 1998 quarterly performance reports were accurate. We reviewed documentation provided to us by the community affairs officers and found that most of the community affairs and outreach events reported in the Quarterly Activity Reports in 1998 were adequately supported. Therefore, we could provide assurance that the Quarterly Activity Reports for 1998 were reliable for GPRA performance reporting. Although the events themselves were generally supported, we found that the numbers of participants in these events and the results of the activities were not always supported in the documentation provided by the community affairs officers. Further, we could not find support for some of the community affairs and outreach information highlighted in FDIC's Quarterly Performance

Reports.

DCA changed the focus of the community affairs and outreach goals for 1999 and 2000 to reflect impact rather than number of activities. However, DCA considered the number of events and participants in reporting its outreach performance results in 1999. Thus, we believed DCA headquarters and the community affairs officers should ensure that adequate records are maintained to more sufficiently support community affairs and outreach activities and the numbers of participants attending the events.

DCA's Community Affairs Program supports FDIC in its supervisory role and its functions related to community reinvestment and fair lending, and assists consumer and community groups, government officials, and others in understanding and participating in the fair lending process. The program serves the FDIC, the lending community, and the public by providing information on, and assistance with, identifying and meeting community credit needs. Through community outreach efforts and technical assistance, the FDIC encourages lenders to communicate continually with members of their local communities' credit needs.

FDIC's 1998 Annual Performance Plan included two strategic goals for DCA: (1) promote compliance with the CRA, including community development lending, and other fair lending laws and regulations; and (2) facilitate banks' and community-based organizations' participation in community reinvestment initiatives, consistent with Fair Lending goals and objectives. The 1998 annual performance goals and targets were to:

- Conduct 94 banker outreach and education activities in accordance with workload assumptions; and
- Conduct presentations at or facilitate 44 meetings of banker and community/industry groups.

Annual performance goals for this area primarily related to the number of educational and outreach efforts pertaining to fair lending and CRA issues. The community affairs officers in the regional offices reported their 1998 community affairs and outreach activities in Quarterly Activity Reports submitted to the national community affairs coordinator at DCA headquarters. The Quarterly Activity Reports consisted of narrative descriptions of each region's progress in meeting annual goals and detailed information about the community affairs and outreach activities including the date, location, topic, numbers and types of participants, names of DCA representatives, and results for each event. The national community affairs coordinator summarized the data in the Quarterly Activity Reports and included the significant events in FDIC's quarterly performance reports. DCA headquarters did not separately communicate to the community affairs officers what specific events were included or excluded in the quarterly performance reports in 1998. However, for some of the activities, the national community affairs coordinator annotated changes and review comments directly on the Quarterly Activity Reports and returned copies of the reports to the regional directors and the community affairs officers.

We could not be certain that the numbers of community affairs and outreach activities reported in FDIC's 1998 quarterly performance reports were accurate. In FDIC's Fourth Quarter 1998 Performance Report, DCA reported 104 events for the banker outreach and education activities goal, and 110 events for the banker and community/industry meetings goal for the entire year. The community affairs officers reported a total of 113 events and 155 activities for the same goals. We did

not attempt to reconcile the differences because, as previously mentioned, DCA headquarters officials told us they selected the significant events from the Quarterly Activity Reports for inclusion in FDIC's quarterly performance reports for 1998. Further, DCA headquarters' supporting documentation for the quarterly performance reports did not specifically identify which regional events reported in the Quarterly Activity Reports were included in, or excluded from, the total numbers of community affairs and outreach activities reported in the quarterly performance reports in 1998.

DCA did not have a requirement for community affairs officers to document or maintain records for each activity. However, DCA officials in headquarters told us that, to verify an outreach activity, they would review documentation such as: a registration list of attendees, agenda materials, brochures, folder of notes on the development of the outreach event(s), evaluation forms, and electronic mail messages regarding the planning and execution of the event(s).

We reviewed community affairs and outreach files during our visits to the New York and Kansas City Regional Offices. The documentation in the files consisted of items such as:

- Conference/meeting/workshop announcements
- Agendas
- Handouts
- Invitations for speaking engagements
- Requests for authorization to attend an outside event
- Results of consumer credit surveys
- Attendee sign-in sheets
- Report of outside event

We requested through DCA headquarters that the remaining six regional offices send us copies of documentation supporting their community affairs and outreach activities for 1998. We traced the following items in the Quarterly Activity Reports to the documentation provided to us by the community affairs officers for each of the eight regions:

- Date of event
- Event location and/or topic
- Number/Type of participants
- DCA representative attending the event
- Results of the event

We found that most of the 113 outreach and education activities and 155 banker meetings in the Quarterly Activity Reports were adequately documented. While the events themselves were generally supported, we found that the numbers of participants were not sufficiently supported for 47 percent of the 113 outreach activities and 36 percent of the 155 banker meetings. As an example, one region reported in its Quarterly Activity Report that 200 participants attended a Lending Conference. However, we could not find any support for the number of participants in the documentation that we were provided for this event. We believed maintaining records of attendance and participation for community affairs and outreach events is important because DCA headquarters reported an aggregate number of participants attending these activities for each of the 1998 quarterly performance reports. For example, in FDIC's Fourth Quarter 1998 Performance Report, DCA reported that it was able to

reach over 900 bankers in six regions by holding 13 banker- related speaking and training engagements during the fourth quarter of 1998. DCA also reported in the fourth quarter report that it conducted 25 outreach activities that reached approximately 1,200 participants.

We also found that the results of events identified in the Quarterly Activity Reports were not adequately supported for 26 percent of the 113 outreach activities and 155 banker meetings. For example, one region reported in its Quarterly Activity Report that a meeting resulted in a loan servicer agreeing to report on the loans made under the lending program and FDIC signing a partnership agreement with the local community representatives and lenders. We could not find any support for these results in the documentation that the region provided to us. Maintaining files to document the results of community affairs and outreach events is critical because DCA headquarters highlighted the impact of some of the significant outreach events in FDIC's quarterly performance reports in 1998. For example, in FDIC's Fourth Quarter 1998 Performance Report, DCA reported that a particular conference provided participants with practical information and tools, and helped to build networks and partnerships for ongoing community development.

In addition, we could not find support in the documentation provided to us by the regional community affairs officers for some of the community affairs and outreach information highlighted in FDIC's quarterly performance reports in 1998. For example, in FDIC's First Quarter 1998 Performance Report, DCA highlighted a conference designed to encourage the development of innovative community development projects that was attended by approximately 240 participants. We could not find any support for the number of participants attending or the results of this event in the documentation provided to us by the community affairs officer for the region in which the event took place. In another example, in FDIC's Fourth Quarter 1998 Performance Report, DCA highlighted three consumer education workshops conducted during the period. We were able to locate supporting documentation in the information provided to us by the community affairs officers for just one of the three workshops.

DCA changed the focus of the community affairs and outreach goals for 1999 and 2000 to be more outcome-oriented, and the goals no longer relate to a specific number of events. According to FDIC's Second Quarter 1999 Performance Report, DCA's goal for consumer rights is to develop a methodology for measuring what changes in community development have resulted from FDIC outreach efforts. However, in the Second Quarter 1999 Quarterly Performance Report, DCA reported that they conducted: 27 speaking engagements that were attended by 3,312 participants, 39 training activities that were attended by 1,788 participants, and 93 conferences/meetings/focus groups that were attended by 5,086 participants. Therefore, because outreach events are factored into measuring performance for the outcome-oriented goal, we believe that the community affairs officers should maintain more sufficient documentation in support of the activities that they report.

CONCLUSIONS AND RECOMMENDATIONS

DCA established 1998 goals, targets, and performance indicators for compliance and CRA examinations and community affairs and outreach activities. DCA also identified a system and information sources used to validate and verify performance data, as required by the Results Act.

Our work and conclusions were limited to general and application controls relevant to the CSS "Bank Start Date" data element used for compliance and CRA examination performance reporting. We could not provide complete assurance as to the overall reliability of CSS because a prior FDIC review of the system identified control weaknesses related to CSS and we did not review the resulting corrective actions.

We found an immaterial difference in the numbers of examination starts reported in 1998 compared to CSS information. In addition, with just a few exceptions, the compliance and CRA examination start dates in our sample of examinations were adequately supported. However, we could not determine whether the integrity of the "Bank Start Date" was retained throughout CSS data processing because no source document existed to permit validation of the examination start date at the time of original input into CSS. Further, CSS users were able to change the "Bank Start Date" data element until 90 days after examination completion. DCA established reasonableness tests and edit checks it believed were sufficient to ensure that data integrity of the "Bank Start Date" was maintained for purposes of GPRA performance reporting. Nothing came to our attention during our review to suggest that DCA's reasonableness and edit check controls were not working as intended. As a result, we could provide assurance that CSS was reliable for performance reporting purposes. Given the importance of the "Bank Start Date," however, we believed DCA should better ensure the accuracy of this date. Accordingly, we recommended that the Director, DCA:

(1) Require that the DCA regional directors work with the field office supervisors to determine the type of documentation that should be prepared and maintained in the examination working papers to support the "Bank Start Date."

(2) Consider establishing a "Bank Start Date" data element in the new system, SOURCE, which is fully protected from unnecessary or unauthorized revisions.

With respect to the goals for community affairs and outreach activities, we could not be certain that the numbers of community affairs and outreach events reported in FDIC's 1998 quarterly performance reports were accurate. DCA headquarters relied on information provided by regional community affairs officers in Quarterly Activity Reports for GPRA performance reporting. However, DCA headquarters' supporting documentation for the GPRA quarterly performance reports did not specifically identify which regional events were included in the total number of community affairs and outreach activities reported in the quarterly performance reports.

With respect to the accuracy and reliability of the Quarterly Activity Reports, we found that most of the community affairs and outreach activities reported in 1998 were supported by documentation provided to us by the regional community affairs officers. Thus, we could provide assurance that the Quarterly Activity Reports for 1998 were reliable for GPRA reporting purposes. Although the events were generally supported, the numbers of participants in the activities and the results of the events were

not always sufficiently supported in the documentation provided to us. Further, we could not find support in the documentation provided to us for some of the information highlighted in FDIC's quarterly performance reports in 1998.

DCA changed the focus of its community affairs and outreach goal for 1999 and 2000 to be more outcome-oriented, and the goal no longer relates to a specific number of activities. However, DCA considered outreach events and numbers of participants in measuring performance for its 1999 consumer rights goal. Thus, we believed that DCA headquarters and the community affairs officers should ensure that more sufficient documentation is maintained to support community affairs and outreach activities and the numbers of participants attending the events. Accordingly, we recommended that the Director, DCA, require that the Associate Director, Washington Consumer/ Community Affairs/Outreach Branch:

(3) Maintain a record of which regional events reported in the Quarterly Activity Reports are included in the FDIC GPRA quarterly performance reports.

(4) Work with the regional community affairs officers to determine the amount, extent, and type of documentation that should be maintained to ensure that community affairs and outreach activities and the numbers of participants attending the events are adequately supported.

CORPORATION COMMENTS AND OIG EVALUATION

Through an electronic mail message, DOF requested an editorial change to a draft of this report. We revised the final report to address DOF's request. We received DCA's written response dated February 3, 2000, to our draft report. The Director, DCA, provided the response and agreed with recommendations 2, 3, and 4 of the draft report. For those three recommendations, the Director's response, together with actions taken and planned and information we obtained after receiving the response, provided the requisite elements of a management decision. The Director disagreed with recommendation 1, but provided sufficient information on DCA's position to warrant a management decision. The response is presented in Appendix I of this report. Appendix II presents our assessment of DCA's responses to the recommendations and shows that we have a management decision for each of the four recommendations. A summary of DCA's response and our analysis follows.

Require that the DCA regional directors work with field office supervisors to determine the type of documentation that should be prepared and maintained in the examination working papers to support the "Bank Start Date" (Recommendation 1): The Director, DCA, disagreed with this recommendation. In his response, the Director stated DCA's belief that the source document for the "Bank Start Date" should be the Compliance Report of Examination and/or the CRA Performance Evaluation Report, and added that the date reflected on the cover of these documents is the "official" date of the examination and is the date recorded in the Compliance Statistical System (CSS) as the "Bank Start Date."

Following receipt of the DCA Director's response, we requested additional information to clarify DCA's position on this recommendation. We inquired about the type of discussions that took place between the regional directors and field office supervisors to reach agreement that the Compliance Report of Examination and/or the CRA Performance Evaluation Report should serve as support for the "Bank Start Date." We received an electronic mail message from DCA stating that DCA's regional directors and field office supervisors have always maintained that the Compliance Report of Examination and/or the CRA Performance Evaluation Report serves as the primary support for the examination's "Bank Start Date." DCA's message also indicated that, to date, there has not been a need for additional discussion of this issue.

In our opinion, a source document by definition is information, in manual or electronic form, which is the basis for original entry of data to a computer application. Because the "Bank Start Date" is entered into CSS many weeks before the preparation of the examination reports, we theoretically cannot agree with DCA's position that the reports of examination should serve as the source document for the "Bank Start Date." Nevertheless, we accept DCA's position that the reports of examination will continue to serve as the primary support for the "Bank Start Date," and thus for GPRA reporting of examinations initiated. We noted in our draft report that we relied on these reports to validate the "Bank Start Date" for the compliance and CRA examinations in our sample because no source documents existed to support the dates at the time of original entry into CSS.

As we pointed out in our draft report, the potential for error in CSS for "Bank Start Dates" used for Results Act reporting was mitigated by reasonableness tests and edit checks that DCA performed on the CSS data. However, we also noted that there is value to DCA ensuring the accuracy of the "Bank Start Date" because this date is used for other purposes, such as scheduling future compliance and CRA examinations.

The Director's response and additional information provided by DCA adequately discuss the basis for DCA's disagreement with this recommendation and therefore constitute a management decision.

Consider establishing a "Bank Start Date" data element in the new system, SOURCE, which is fully protected from unnecessary or unauthorized revisions (Recommendation 2): The Director, DCA, agreed with this recommendation and stated that the new system, SOURCE, will protect the "Bank Start Date" from any unnecessary or unauthorized revisions or changes through system update controls, such as the requirement that the field staff and bank must both be assigned to the same field office in order for the field staff to perform any data updates. In his comments, the Director stated that the examination record will be locked from all updates 90 days after the "mailed to bank date." Although it appears that the "Bank Start Date" in SOURCE will still be subject to revisions within the 90-day limitation, DCA stated that the new system will have a full audit trail documenting all changes to the data file—a control that did not exist in the CSS. DCA estimated that SOURCE would be implemented by June 30, 2001. DCA's response adequately addressed the intent of the recommendation and contained all the requisites of a management decision.

Maintain a record of which regional events reported in the Quarterly Activity Reports are included in the FDIC GPRA quarterly performance reports (Recommendation 3): The Director, DCA, agreed with this recommendation and indicated in his response that, starting in the first quarter of 2000, DCA's Washington Consumer/Community Affairs/Outreach Branch will annotate on the Quarterly Activity Reports those regional events which will be included and the activities which will not be included in the DCA quarterly performance report. DCA's response adequately addressed the recommendation and contained all the requisites of a management decision.

Work with the regional community affairs officers to determine the amount, extent, and type of documentation that should be maintained to ensure the community affairs and outreach activities and the numbers of participants attending the events are adequately supported (Recommendation 4): The Director, DCA, agreed with this recommendation and stated that DCA is in the process of revising the quarterly report form used by Community Affairs staff to document their activities. The revised form will require a record of the actual, not the estimated, number of attendees at each outreach event, and the numbers will be confirmed using a roster, a sign-in sheet, or other documentation. The Director indicated that the revised form should enable the Community Affairs staff to be more specific in reporting the outcomes of their work. DCA anticipates the revised form will be used in the second quarter of 2000. The Director's response adequately addressed the recommendation and contained all the requisites of a management decision.

Appendix I: Corporation Comments

Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429
Division of Compliance and Consumer Affairs

February 3, 2000

TO: Stephen M. Beard
Director, OIG Office of Congressional Relations and Evaluations

FROM: Stephen M. Cross
Director, Division of Compliance and Consumer Affairs

SUBJECT: Response to Draft Evaluation Report: *The Division of Compliance and Consumer Affairs' Reporting of Examinations and Activities in FDIC Quarterly Performance Reports*

Thank you for the opportunity to comment on your draft report *The Division of Compliance and Consumer Affairs' Reporting of Examinations and Activities in FDIC Quarterly Performance Reports*. As requested in your memorandum dated January 7, 2000, we are presenting our response to the OIG's Office of Congressional Relations and Evaluations (OCRE) recommendations contained in the aforementioned report in both hard copy and electronic format.

Recommendation 1 - Require that the DCA regional directors work with field office supervisors to determine the type of documentation that should be prepared and maintained in the examination working papers to support the "Bank Start Date."

The source document for the Bank Start Date should be the Compliance Report of Examination and/or the CRA Performance Evaluation Report. The date reflected on the cover of these documents is the "official" date of the examination and is the date recorded in the Compliance Statistical System (CSS) as the Bank Start Date.

OCRE reviewed the working papers for a sample of 90 examinations during the course of its evaluation, and ascertained there was supporting documentation to support the Bank Start Date for 86 of the 90 examinations (96 percent) reviewed. We believe establishment of any new or additional working paper requirement to support the Bank Start Date would have minimal value, other than to provide a field-level confirmation of the Bank Start Date, which is eventually memorialized on the cover of the Compliance Report of Examination report or in the Compliance Report of Examination letter report.

DCA is in the process of considering changing the official date of examination from the date DCA initially starts the examination to the date the final examination report is mailed to the bank. The date the final examination report is mailed to the bank is the date of the Compliance Report of Examination's transmittal letter or is the date of the Compliance Report of Examination's letter report. All examinations will either have a transmittal letter or letter report,

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which would satisfy the need for consistent documentation documenting the date of the examination.

Recommendation 2 – Consider establishing a "Bank Start Date" data element in the new system, SOURCE, which is fully protected from unnecessary or unauthorized revisions.

We agree with OCRE that the Bank Start Date data element should be fully protected from any unnecessary or unauthorized revisions or changes. At the same time, to the best of our knowledge and understanding, OCRE did not find any instances during its evaluation of where the Bank Start Date for any examination was subject to any unnecessary or unauthorized revisions.

DCA's new system of record, System of Uniform Reporting of Compliance and CRA Examinations (SOURCE), will protect the Bank Start Date from unnecessary and unauthorized revisions as follows:

- The field staff and bank must both be assigned to the same field office in order for the field staff to perform any data updates.
- Regional staff must be assigned to the physical region or supervisory region to which the institution is assigned to perform any data updates.
- Washington Office staff will not be able to perform data updates to examination data unless they are in the Washington Office System Administration Group. There will only be one or two staff members in the Washington Office System Administration Group who will be authorized to perform any data updates.
- The entire examination record will be locked from all updates 90 days after the "mailed to bank date." After this date only the authorized personnel within the Washington Office System Administration Group can perform any data updates.

SOURCE will also have a full audit trail documenting all changes to the data file. SOURCE's audit trail will function as follows:

- Once a record is added to the system, no data will be lost. If an element is changed, when the new information is recorded, the old information will be saved. This will provide what the information was, what it is, and who changed the record.
- A "logical" delete process will be implemented so when a delete is done, the record is marked as "deleted" but can be retrieved by authorized Washington Office System Administration Group staff. The original input of information and any associated changes are saved as well as the status of the record upon deletion.
- SOURCE will print the examination report covers for the Compliance Report of Examination and/or CRA Performance Evaluation, thereby ensuring the date of the examination match the date in the SOURCE system.
- If there is a need to subsequently change any data in SOURCE, the audit trail would document the update and the person updating the information. If necessary, the system could

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also capture a "reason for update" for this field. This "reason for update" should only be used if the date is updated during or after the review process.

When the examiner completes work on the examination and is ready to upload examination data, SOURCE requires that an "examination complete" button be pressed. This causes the system to run through its error check process. When all error checks have been completed SOURCE will present a message:

> The start date of the exam is __ / __ / ____
> The complete date of the exam is __ / __ / ____
>
> Please verify the accuracy of this information.
>
> Do you certify that the above information is accurate?
> Y – The information is certified correct.
> N – The information is not certified correct."

A Yes answer would allow the information to be uploaded and passed to review.
A No answer would discontinue the upload and require the examiner the update the incorrect information.

Recommendation 3 – Maintain a record of which regional events reported in the Quarterly Activity Reports are included in the FDIC GPRA quarterly performance reports.

The management of Washington's Consumer/Community Affairs/Outreach Branch (CCOB) will continue to use its discretion in extracting the most significant outreach activities to be included in DCA's quarterly performance report. Starting in the first quarter of 2000, CCOB will clearly make a notation on the Quarterly Activity Reports for those regional events which will be included, and for those activities which will not be included, in the DCA quarterly performance report.

Recommendation 4 – Work with the regional community affairs officers to determine the amount, extent, and type of documentation that should be maintained to ensure the community affairs and outreach activities and the numbers of participants attending the events are adequately supported.

The Washington Office of the Consumer/Community Affairs/Outreach Branch (CCOB) is in the process of revising the quarterly report form used by Community Affairs staff to document their activities. The form will clearly state that Community Affairs staff should include the actual, not the estimated, number of attendees at each outreach event. These numbers will be confirmed using a roster, a sign-in sheet, or other documentation. The form will also enable the Community Affairs staff to be more specific in reporting the outcomes of their work. A draft

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form was sent to regional Community Affairs staff for comment in mid-January. We anticipate the revised form being used starting with the second quarter of 2000.

If you have any questions, please contact Melissa D'Onofrio, Associate Director for Operations, at 202-942-3223.

Appendix II: Management Response to Recommendations

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on DCA management's written response to our draft report.

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	DCA's regional directors and field office supervisors have always maintained that the Compliance Report of Examination and/or the CRA Performance Evaluation Report serves as the primary support for the examination's "Bank Start Date." The date reflected on the cover of these documents is the "official" date of the examination.	02/03/00	Compliance Reports of Examination and/or CRA Performance Evaluation Reports	N/A	Yes
2	DCA's new system of record, System of Uniform Reporting of Compliance and CRA Examinations (SOURCE), will protect the "Bank Start Date" from unnecessary and unauthorized revisions. SOURCE will also have a full audit trail documenting all changes to the data file.	06/30/01	SOURCE system documentation and user guide	N/A	Yes
3	DCA Washington Office will make a notation on the Quarterly Activity Reports for regional events included in and excluded from DCA's quarterly performance reports.	First Quarter 2000	Annotated Quarterly Activity Reports	N/A	Yes

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
4	The revised quarterly report form will clearly state that Community Affairs staff should include the actual, not the estimated, number of attendees at each outreach event. These numbers will be confirmed using a roster, a sign-in sheet, or other documentation. The form will also enable the Community Affairs staff to be more specific in reporting the outcomes of their work.	Second Quarter 2000	Revised Quarterly Activity Report form	N/A	Yes