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OFFICE OF
INSPECTOR GENERAL

**SEMIANNUAL REPORT
TO THE
CONGRESS**

*Including the Office of
Inspector General's
Performance Report for
Fiscal Year 2008*

FDIC

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the nation's banking system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Approximately 4,800 individuals within seven specialized operating divisions and other offices carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured \$4.54 trillion in deposits for 8,384 institutions, of which the FDIC supervised 5,134. The Corporation held insurance funds of \$34.6 billion to ensure depositors are safeguarded.

YEARS

CONFIDENCE AND STABILITY



INSPECTOR GENERAL STATEMENT

The Federal Deposit Insurance Corporation (FDIC) proudly celebrated its 75th anniversary on June 16, 2008. For three quarters of a century, the FDIC has protected insured depositors and brought stability to the banking system. Amidst the current turmoil in the nation's economy and the resulting liquidity crisis, the FDIC has persevered in its mission, risen to meet new challenges, and helped maintain the public's confidence during these extraordinary times.

The events of the past 6 months are unprecedented. During May two institutions failed, and in July came the largest failure in recent years—that of IndyMac Bank, F.S.B., in Pasadena California, causing an \$8.9 billion loss to the Deposit Insurance Fund. Ten additional failures occurred after IndyMac, bringing the total in 2008 as of the end of October to 17. Home foreclosures have steadily increased; credit markets have tightened; weakened financial firms have merged with stronger rivals; troubled banks have been absorbed by other already huge competitors; losses in the stock market have taken a toll on

companies and individual investors; and the federal government has taken control of two firms involved in the secondary mortgage markets and another insurance and financial services giant. Around the globe, confidence in financial systems has been shaken. The Secretary of the Treasury proposed a plan to address the financial unrest, and the Congress passed landmark legislation that the President signed as the Emergency Economic Stabilization Act of 2008 on October 3, 2008.

While the vast majority of FDIC-regulated institutions remain safe and sound, all of these events have had a profound impact on the FDIC mission, operations, and workforce. The FDIC has met its deposit insurance responsibilities; continued its supervision and examination of banks; carried out its resolution and receivership workload; and participated in several actions by the Congress, the Treasury Department, and other federal regulators designed to restore confidence in insured financial institutions. These have included temporarily increasing deposit insurance coverage and providing guarantees to new, senior unsecured debt issued by banks, thrifts, or holding companies. The FDIC has also worked with

mortgage lenders, the securitization industry, servicers, consumer groups, other regulators, and the Congress on steps to reduce unnecessary foreclosures through such measures as implementing the Hope for Homeowners Act and proposing loan modifications for troubled borrowers.

Recent events have correspondingly touched many facets of the Office of Inspector General's (OIG) operations. To illustrate, we took a number of proactive steps to prepare for the statutorily mandated reviews that we must conduct when an FDIC-regulated institution fails and the Deposit Insurance Fund incurs a material loss, defined as a loss exceeding the greater of \$25 million or 2 percent of the failed institution's assets at closing. Our office led the other financial regulatory OIGs in formulating a standard approach to conducting these reviews, developed a training program to ensure needed OIG expertise for material loss review work, and loaned FDIC OIG staff to the Department of the Treasury OIG to assist in that office's material loss review of IndyMac Bank.

Now more than ever, the OIG must remain responsive to the volatile environment, and our guiding principle will be flexibility. This flexibility will manifest



CONFIDENCE AND STABILITY

itself in the nature of the work we conduct, the cross-functional teams we assign to projects, and the approaches we take in planning and conducting work and reporting results. Most importantly, we are taking all possible steps to ensure that our staff is positioned to add maximum value through audits, evaluations, and investigations; offer unique and independent perspectives on efficiency and effectiveness; and play a key part in ensuring the longstanding tradition of integrity and transparency in the regulatory activities of the FDIC.

This semiannual report looks back on the 15 audits and evaluations that we completed over the past 6-month period and the projects that other units in the office undertook in support of that work. It also references some of our more recently initiated work, such as the five material loss reviews that we have initiated as of the end of October. Our investigations this period led to 45 indictments/informations; 61 convictions; and nearly \$353 million in fines, restitution, and other monetary

recoveries. A significant portion of our investigative workload relates to mortgage fraud, and we are pleased to partner with the Department of Justice, the Federal Bureau of Investigation, and other law enforcement colleagues in successfully combating such fraud throughout the country.

Like the FDIC, the Inspector General (IG) community also marked an anniversary recently, for 30 years ago, on October 12, 1978, the IG Act was signed. In keeping with an environment of continual change, on October 14, 2008, the IG Reform Act of 2008 was signed by the President. Among other provisions, this legislation strengthens IG independence, and combines the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency in a new, unified Council that will focus on cross-cutting issues and training for more than 12,000 OIG staff in the federal government. We look forward to working with our colleagues in the community as the new Council charts its course in the days ahead.

There is no doubt that the future will continue to pose formidable challenges to the FDIC, and there is no single or simple solution to fix current market turmoil. On this, the 30th anniversary of the creation of IGs, we recommit to carrying out the IG mission and working with the Congress, the FDIC, and other stakeholders as we tackle the complex issues of these uncertain and changing times.

Jon T. Rymer
Inspector General
October 31, 2008

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Abbreviations and Acronyms

BIS	Business Information Systems
BOA	Basic Ordering Agreement
BSA	Bank Secrecy Act
CDC	Finding Dreams In Children Child Development Centers, Inc.
DIF	Deposit Insurance Fund
DIT	Division of Information Technology
DOA	Division of Administration
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
DSC	Division of Supervision and Consumer Protection
ECIE	Executive Council on Integrity and Efficiency
ECU	Electronic Crimes Unit
EIC	Examiner-in-Charge
FBI	Federal Bureau of Investigation
FCFS	Franklin County Financial Services
FDIC	Federal Deposit Insurance Corporation
FISMA	Federal Information Security Management Act of 2002
FY	fiscal year
GAO	U.S. Government Accountability Office
GPRA	Government Performance and Results Act of 1993
HELOC	home equity line of credit
IG	Inspector General
IRS	Internal Revenue Service
IT	Information Technology
KPMG	KPMG, LLP
OERM	Office of Enterprise Risk Management
OFAC	Office of Foreign Assets Control
OI	Office of Investigations
OIG	Office of Inspector General
OM	Oversight Manager
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
ROE	Report of Examination
SCT	Secured Capital Trust
ViSION	Virtual Supervisory Information on the Net

HIGHLIGHTS AND OUTCOMES

The OIG's 2008 Business Plan contains five strategic goals that are closely linked to the FDIC's mission, programs, and activities, and one that focuses on the OIG's internal business and management processes. These highlights show our progress in meeting these goals during the reporting period. A more in-depth discussion of OIG audits, evaluations, investigations, and other activities in pursuit of these goals follows.

STRATEGIC GOAL 1

SUPERVISION: ASSIST THE FDIC TO ENSURE THE NATION'S BANKS OPERATE SAFELY AND SOUNDLY

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. During the reporting period, we completed audits of the FDIC's examination assessments of two key risks: interest rate risk and liquidity risk. We recommended three improvements to examiners' consideration of interest rate risk. In another audit, we made two recommendations to enhance controls over changes to examiner-proposed

CAMELS ratings. Ongoing work in support of this goal included four material loss reviews of failed FDIC-regulated banks.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we achieved successful results in combating a number of mortgage fraud schemes. Our efforts in support of the Department of Justice's Operation Malicious Mortgage also supported this goal. Particularly noteworthy results from our casework include multiple guilty pleas for mortgage fraud schemes carried out in Florida, Louisiana, and New York. Another of our investigations led to the sentencing of a former music industry executive to 25 years in prison to be followed by 3 years of probation. He was also ordered to pay restitution of more than \$310 million to the individuals and institutions that he defrauded. In another case, a total of seven individuals pleaded guilty to a massive home equity line of credit fraud scheme that enriched them temporarily and impacted at least 16 different lenders in the Northern New Jersey area.

The Office of Investigations also continued its close coordination

and outreach with the Division of Supervision and Consumer Protection (DSC), the Division of Resolutions and Receiverships, and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with DSC and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. (See pages 9-20.)

STRATEGIC GOAL 2

INSURANCE: HELP THE FDIC MAINTAIN THE VIABILITY OF THE INSURANCE FUND

Our material loss review work supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the fund by way of recommendations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses. At the end of the reporting period, ongoing work in this goal area included an audit of the Corporation's off-site monitoring activities for insurance risk and an audit of the FDIC's investment management practices related to the Deposit Insurance Fund, the results of which will be included in an upcoming semi-annual report. (See pages 21-22.)

STRATEGIC GOAL 3
CONSUMER PROTECTION: ASSIST THE FDIC TO PROTECT CONSUMER RIGHTS AND ENSURE CUSTOMER DATA SECURITY AND PRIVACY

Audits, evaluations, and investigations contribute to the FDIC's protection of consumers in several ways. At the end of the reporting period we had several assignments ongoing or planned in support of this goal, including an audit of consumer credit underwriting practices in community banks and an evaluation of enforcement actions for compliance violations.

From an investigative standpoint, the OIG's Electronic Crimes Unit (ECU) was also successful in working a case to deactivate 51 fraudulent email accounts to date involving false claims of FDIC insurance or affiliation. In one of our cases, the former co-owner of a securities firm pleaded guilty to a securities fraud in which he misrepresented FDIC insurance to investors. In that regard, the OIG was pleased to learn that the Emergency Economic Stabilization Act of 2008 contains a long-supported provision that the OIG helped to draft giving the FDIC increased enforcement authority for such misrepresentation of FDIC affiliation or insurance. The

ECU responded to Internet-based schemes where the FDIC and OIG Web sites were misused to entice consumers to divulge personal information. (See pages 23-26.)

STRATEGIC GOAL 4
RECEIVERSHIP MANAGEMENT: HELP ENSURE THAT THE FDIC IS READY TO RESOLVE FAILED BANKS AND EFFECTIVELY MANAGES RECEIVERSHIPS

We completed two evaluation assignments in this goal area. In one, we evaluated contingency planning for large-scale resolution activity and provided observations to FDIC senior management officials just prior to the actual increased workload involving multiple failures. A second assignment examined high-level controls at the IndyMac conservatorship, and we made suggestions to FDIC management in place at the institution. We also conducted audits related to internal control in the FDIC's receivership accounting process and protection of resolution and receivership data managed or maintained by FDIC contractors and made recommendations to strengthen controls, with which management agreed.

We continued to pursue concealment of assets investigations related to criminal restitution that the FDIC is owed. (See pages 27-31.)

STRATEGIC GOAL 5
RESOURCES MANAGEMENT: PROMOTE SOUND GOVERNANCE AND EFFECTIVE STEWARDSHIP AND SECURITY OF HUMAN, FINANCIAL, IT, AND PHYSICAL RESOURCES

The OIG devoted substantial resources to this goal area during the reporting period, resulting in a variety of issues addressed. We performed an audit of the Corporation's controls over contractor payments for relocation services and another audit of controls over background checks of child care provider personnel. In the information technology (IT) area, we audited the reliability of information accessed through the Virtual Supervisory Information on the Net system. One of our most comprehensive reviews was our audit of the FDIC's information security program, pursuant to the Federal Information Security Management Act of 2002 (FISMA), wherein KPMG, LLP identified eight steps that the FDIC could take to enhance information security controls. In another audit conducted during the reporting period that fed into our FISMA work, KPMG reported on the FDIC's controls over the confidentiality of sensitive email communications. Additionally, we audited controls over contract

invoice approval, payment, and posting to the general ledger.

One of our evaluations resulted in suggestions to enhance the energy efficiency of the FDIC's Virginia Square facility, including the Student Residence and IT Data Centers. Another evaluation this period followed up on work we conducted for the Chairman regarding IT procurement integrity and governance. Again, at her request, we explored options for adding an independent review of IT project data at key decision points in the selection and control phases of the IT governance process.

Ongoing or planned work in this area as of the end of the reporting period includes evaluations of the FDIC's Corporate Employee Program and security guard services and audits of the FDIC-connect system and the Corporation's contract with Aramark.

We also promoted integrity in FDIC internal operations through ongoing OIG Hotline referrals and coordination with FDIC management. (See pages 32-39.)

STRATEGIC GOAL 6
OIG INTERNAL PROCESSES:
BUILD AND SUSTAIN A
HIGH-QUALITY OIG STAFF,
EFFECTIVE OPERATIONS,
OIG INDEPENDENCE, AND
MUTUALLY BENEFICIAL
WORKING RELATIONSHIPS

We continued to focus on a number of internal activities in this goal area during the past 6 months.

To ensure effective and efficient management of OIG resources, among other activities, we monitored the fiscal year (FY) 2008 budget, considered changes in the financial services industry and economy that would likely impact OIG workload and financial and human resource needs, and prepared our FY 2009 and 2010 budgets accordingly. We continued realignment of the OIG investigative resources with FDIC regions, by reassigning Office of Investigations staff, and advertising and filling vacancies. Further, we continued a project to upgrade the OIG's audit and evaluation tracking system and assess how we are using TeamMate as we conduct audits and evaluations to better leverage that technology and ensure efficiency in our work.

In the interest of ensuring quality and efficiency in our work and operations, we implemented the

revised Office of Audits Policy and Procedures Manual to address changes in the performance audit standards and process changes resulting from an internal assignment management review and external peer review results. We continued use of our contract with a qualified firm to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We took steps to better track and contain costs associated with audits and evaluations. We continued use of the OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audits and evaluations and implemented a new Inspector General (IG) feedback form for audits and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by using revised career development plans that are better aligned with OIG goals and integrating training plans for OIG staff in the career development plans, continuing the OIG mentoring program, advertising multiple expressions of interest for forensic accountants to assist investigators in conducting financial institution fraud cases, offering opportunities

for OIG staff to attend graduate schools of banking, sponsoring two summer interns, and hosting a senior executive service candidate from another federal agency.

Our office continued to foster positive stakeholder relationships by way of IG and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; and coordination with financial regulatory OIGs, other members of the IG community, other law enforcement officials, and the U.S. Government Accountability Office. Members of the OIG Employee Advisory Group met with the IG, the OIG participated in corporate diversity events, and we maintained and updated the OIG Web site to provide easily accessible information to stakeholders interested in our office and the results of our work. Of note, the IG was named Chair of the Audit Committee of the President's Council on Integrity and Efficiency, and as such, serves as a leader in the federal audit community. We also loaned resources to assist the Department of the Treasury OIG in conducting its material loss review of IndyMac Bank.

In the area of enhancing OIG risk management activities, we carried out and monitored the OIG's FY 2008 business plan, including

holding meetings to assess progress, and planned for FY 2009 by analyzing significant activities and risks within the Corporation and the financial services industry. We tailored our planning to emerging issues and events resulting from unprecedented turmoil in the

economy and financial services sector. We also participated regularly at corporate meetings of the National Risk Committee and kept current with presentations by the Corporation's Risk Analysis Center to monitor the risk environment. (See pages 40-45.)

Significant Outcomes

(April 2008 - September 2008)

Audit and Evaluation Products Issued	15
Nonmonetary Recommendations	24
Investigations Opened	42
Investigations Closed	14
OIG Subpoenas Issued	4
Judicial Actions:	
Indictments/Informations	45
Convictions	61
Arrests	31
OIG Investigations Resulted in:	
Fines of	\$20,000
Restitution of	\$344,435,588
Asset Forfeiture of	\$8,500,000
Other Monetary Recoveries of	0
Total	\$352,955,588
Cases Referred to the Department of Justice (U.S. Attorney)	37
Cases Referred to FDIC Management	1
OIG Cases Conducted Jointly with Other Agencies	135
Hotline Allegations Referred	64
Proposed Regulations and Legislation Reviewed	7
Proposed FDIC Policies Reviewed	10
Responses to Requests and Appeals under the Freedom of Information Act	1

1

STRATEGIC GOAL 1: THE OIG WILL ASSIST THE FDIC TO ENSURE THE NATION'S BANKS OPERATE SAFELY AND SOUNDLY

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. As of September 30, 2008, the FDIC was the primary federal regulator for 5,134 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as "state non-member" institutions). The Department of the Treasury (the Office of the Comptroller of the Currency and the Office of Thrift Supervision) or the Federal Reserve Board supervise other banks and thrifts, depending on the institution's charter. The Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund for 3,250 national banks, state-chartered banks that are members of the Federal Reserve System, and savings associations.

The examination of the institutions that it regulates is a core FDIC function. As of June 30, 2008, the Corporation had conducted 1,202 safety and soundness examinations. Through this process, the FDIC assesses the adequacy of management and internal control systems to identify, measure, and control risks; and bank examiners judge the safety and soundness of a bank's operations. The examination program employs risk-focused

supervision for banks. According to examination policy, the objective of a risk-focused examination is to effectively evaluate the safety and soundness of the bank, including the assessment of risk management systems, financial condition, and compliance with applicable laws and regulations, while focusing resources on the bank's highest risks.

Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness relates to compliance with the Bank Secrecy Act (BSA), which requires financial institutions to keep records and file reports on certain financial transactions. FDIC-supervised institutions must establish and maintain procedures to comply with BSA requirements. An institution's level of risk for potential terrorist financing and money laundering determines the necessary scope of the BSA examination. In a related vein, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) promulgates, develops, and administers economic and trade sanctions such as trade embargoes, blocked assets controls, and other commercial and financial restrictions under the provisions of various laws. Generally, OFAC regulations prohibit financial institutions from

engaging in transactions with the governments of, or individuals or entities associated with, foreign countries against which federal law imposes economic sanctions.

In the event of an insured depository institution failure, the Federal Deposit Insurance Act requires the cognizant OIG to perform a review when the Deposit Insurance Fund incurs a material loss. A loss is considered material to the insurance fund if it exceeds \$25 million or 2 percent of the failed institution's total assets. During the past reporting period, 11 FDIC-insured institutions failed. Four of these triggered the FDIC OIG's commencing a material loss review during the period. The FDIC OIG performs the review if the FDIC is the primary regulator of the institution. The Department of the Treasury OIG and the OIG at the Board of Governors of the Federal Reserve System perform reviews when their agencies are the primary regulators. These reviews identify what caused the material loss, evaluate the supervision of the federal regulatory agency (including compliance with the Prompt Corrective Action requirements of the Federal Deposit Insurance Act), and propose recommendations to prevent future failures.



President Roosevelt signed the Banking Act of 1933, a part of which established the FDIC.

Also of significance with respect to safety and soundness, the FDIC and other federal banking agencies agreed to finalize rules implementing Basel II advanced capital requirements for large, complex banks. The agreement contains important safeguards against unrestrained reductions in risk-based capital requirements for these large institutions. It also provides for the development in the U.S. of the Basel II standardized approach as an option for other banks. The FDIC will continue its work in this realm to ensure strong regulatory capital standards.

The OIG's audits and evaluations are designed to address various aspects of the Corporation's supervision and examination activities, as illustrated in the write-ups that follow. The OIG's investigators also play a critical role in helping to ensure the nation's banks operate safely and soundly. The Corporation needs to guard against a number of financial crimes and other threats, including money-laundering, terrorist financing, data security breaches, and financial institution fraud. Bank management is the first line of defense against fraud, and the banks' independent auditors are the second line of defense. Because fraud is both purposeful and hard

to detect, it can significantly raise the cost of a bank failure, and examiners must be alert to the possibility of fraudulent activity in financial institutions.

The OIG's Office of Investigations works closely with FDIC management in DSC and the Legal Division to identify and investigate financial institution crime, especially various types of fraud. OIG investigative efforts are concentrated on those cases of most significance or potential impact to the FDIC and its programs. The goal, in part, is to bring a halt to the fraudulent conduct under investigation, protect the FDIC and other victims from further harm, and assist the FDIC in recovery of its losses. Pursuing appropriate criminal penalties not only serves to punish the offender but can also deter others from participating in similar crimes. Our criminal investigations can also be of benefit to the FDIC in pursuing enforcement actions to prohibit offenders from continued participation in the banking system.

When investigating instances of financial institution fraud, the OIG also defends the vitality of the FDIC's examination program by investigating associated allegations or instances of criminal obstruction of bank examinations and by working

with U.S. Attorneys' Offices to bring these cases to justice.

The OIG's investigations of financial institution fraud currently constitute about 88 percent of the OIG's investigation caseload. The OIG is also committed to continuing its involvement in inter-agency forums addressing fraud. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, the OIG engages in industry outreach efforts to keep financial institutions informed on fraud-related issues and to educate bankers on the role of the OIG in combating financial institution fraud.

To assist the FDIC to ensure the nation's banks operate safely and soundly, the OIG's **2008 performance goals** were as follows:

- Help ensure the effectiveness and efficiency of the FDIC's supervision program, and
- Investigate and assist in prosecuting BSA violations, money laundering, terrorist financing, fraud, and other financial crimes in FDIC-insured institutions.

OIG Work in Support of Goal 1

The OIG's Office of Audits issued three reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. These audits addressed important aspects of the FDIC's examination approaches to specific risks in FDIC-supervised institutions—interest rate and liquidity risks, and controls over the examination rating review process, as described below. Ongoing or planned audit work in support of the goal area as of the end of the reporting period included material loss reviews to determine the causes for the failures of four FDIC-supervised financial institutions and an audit of the FDIC's brokered deposit waiver process. The OIG also loaned staff to the Treasury OIG to assist that office in conducting a material loss review of the failure of IndyMac Bank.

DSC's Examination Assessment of Interest Rate Risk

Changes in interest rates can adversely affect a financial institution's earnings and market capital. Interest rate risk, the exposure of an institution's earnings and capital to adverse interest rate changes, is fundamental to the business of banking. The FDIC's

DSC conducts periodic risk management examinations to ascertain, among other things, an institution's Sensitivity to Market Risk, including interest rate risk.

During the reporting period, we conducted an audit to (1) determine whether the FDIC's examinations comply with applicable policies and procedures for assessing and addressing an institution's internal control, review, and audit coverage of the interest rate risk management process; and (2) evaluate the corrective actions pursued when significant weaknesses are reported by examiners. The audit focused on FDIC-supervised institutions with indicators of elevated interest rate risk.

We found that for the 38 sampled risk management examinations we reviewed, FDIC examiners generally complied with applicable policies and procedures for assessing and addressing an institution's internal control, review, and audit coverage of the interest rate risk management process. Regarding the pursuit of corrective actions, we found that informal and formal corrective actions generally addressed significant weaknesses reported by examiners in the area of interest rate risk.

We also identified situations where the examiner's assessment of an institution's independent review

and reporting to the institution's board of directors could be improved. That is, examinations often did not provide conclusions on the adequacy of the independent review functions, or assess the adequacy of the institution's reporting on the independent reviews to its board.

Additionally, training records we reviewed for 42 interest rate risk and capital markets Subject Matter Experts and Regional Specialists showed that some had obtained little or no training in recent years in their areas of expertise. Targeted training could enhance the contribution of these experts and specialists to the examination process.

We recommended that DSC emphasize to examiners the need to fully assess and conclude on the adequacy of an institution's independent review and on the adequacy of reporting on the independent review to the bank's board, as warranted by risk; advise examiners of the importance of collectively considering all relevant examination guidance; and establish policies and guidelines for the training of interest rate risk and capital markets Subject Matter Experts and Regional Specialists. Management concurred with our recommendations and is taking responsive action.

FDIC's Examination of Liquidity Risk

Liquidity represents the ability of a financial institution to fund assets and meet obligations as they become due. Insured deposits are a common source of liquidity for FDIC-supervised financial institutions. Further, liquidity is critical to the ongoing viability of an institution, and the FDIC considers liquidity management to be among an institution's most important activities.

Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a reasonable time to meet financial institution obligations as they become due. Sound liquidity risk management controls include an institution's board of directors' oversight, policies and procedures, management reporting, internal controls, contingency liquidity plans (CLP), and the identification of funding sources. CLPs include strategies for handling events that can impact day-to-day operations and liquidity crises.

We conducted an audit to assess how the FDIC addresses institution liquidity risk and concluded that the FDIC actively addresses such risk through regulatory and supervisory activities. Further, we found that FDIC examiners complied with applicable exami-

nation guidance for assessing an institution's liquidity and associated risk management and reported on those assessments in their work products and examination results. The FDIC has recognized that liquidity guidance and training need to be updated. In this regard, our report identified practices for the FDIC's consideration in the update efforts that could assist FDIC-supervised financial institutions in identifying, measuring, monitoring, and controlling liquidity risk.

We did not make recommendations in the report. DSC provided a written response, stating that the FDIC is committed to assuring that liquidity risk is appropriately assessed and mitigated through its examination and enforcement action procedures. The FDIC also reiterated that the Corporation is involved in various initiatives to update liquidity-related guidance for financial institutions and examiners.

FDIC's Controls Over the CAMELS Rating Review Process

We conducted an audit to assess the internal controls the FDIC has established over the CAMELS rating system for reviewing and changing proposed ratings included in draft risk management Reports of Examination

(ROE). The six components of the CAMELS rating system address the adequacy of **C**apital, the quality of **A**ssets, the capability of **M**anagement, the quality and level of **E**arnings, the adequacy of **L**iquidity, and the **S**ensitivity to market risk. A rating of 1 through 5 is given, with 1 having the least regulatory concern and 5 having the greatest concern.

CAMELS ratings serve a number of purposes within the FDIC, including as input to the process of determining deposit insurance premiums charged to financial institutions. Poorly rated institutions are subject to increased supervisory attention and potentially higher deposit insurance premiums and may be precluded from certain activity otherwise permitted by law or regulation. It is important, therefore, that the FDIC provide assurance to financial institutions that the CAMELS rating process is consistently implemented and that institutions are treated equitably.

Our audit focused on DSC's field and regional office processes for reviewing proposed CAMELS ratings from the point at which the FDIC Examiner-in-Charge (EIC) has notified the financial institution of the proposed ratings and has electronically submitted the draft ROE for supervisory review. We



An FDIC representative meets with a depositor in 1934 to explain the insured status of her account at a closed bank.

focused on these control processes because once the institution receives its proposed CAMELS ratings, subsequent changes should be justified and approved to help ensure the changes are adequately supported.

The FDIC has established and implemented internal controls for reviewing draft risk management ROEs, including the supervisory review of proposed CAMELS ratings. Also, DSC has established a process for resolving disagreements between the EIC and Case Manager (CM) with respect to changes to proposed CAMELS ratings. The resolution process includes maintaining an open dialogue between the EIC and CM and requiring the CM to bring unresolved differences to the attention of the Regional Director, or designee, for resolution prior to completion of the draft ROE review. However, review procedures do not require that changes to proposed CAMELS ratings, agreed to by the EIC, be documented or justified.

Further, we found that none of the six DSC regions centrally maintains a record of all of the CAMELS ratings changes or documentation justifying and approving changes to EIC-proposed ratings. Consequently, the regions and DSC headquarters

are not able to track or monitor changes to ratings resulting from the ROE review process.

Based on the results of our work, we concluded that DSC controls over changes to EIC-proposed CAMELS ratings could be enhanced. Enhanced controls for tracking and monitoring the justification and approval for CAMELS rating changes will better assure that senior management is informed of ratings changes and help ensure the transparency and integrity of the ratings process. We therefore recommended that DSC revise the *Case Manager Procedures Manual* to require that changes made to EIC-proposed CAMELS ratings in the draft ROE be centrally managed by DSC, including tracking, monitoring, and maintaining the documented justification and approval for changes.

DSC generally agreed with our findings and offered alternative corrective actions, including formalizing the guidance to staff on the required method for documenting unresolved differences related to final CAMELS ratings and developing a method to track those instances. Depending on the content of the DSC guidance, we agree that DSC actions can substantially meet the intent of our recommendation to help

ensure process integrity and transparency. Nevertheless, we continue to believe that there is value in maintaining a record when there are changes to an EIC-proposed rating even when the EIC does not ultimately contest that change, and we suggest that DSC also consider requiring such a record during the course of formalizing its guidance in this area.

Successful OIG Investigations Uncover Financial Institution Fraud

As mentioned previously, the OIG's Office of Investigations' work focuses largely on fraud that occurs at or impacts financial institutions. The perpetrators of such crimes can be those very individuals entrusted with governance responsibilities at the institutions—directors and bank officers. In other cases, individuals providing professional services to the banks, others working inside the bank, and customers themselves are principals in fraudulent schemes.

The cases discussed below are illustrative of some of the OIG's most important investigative success during the reporting period. These cases reflect the cooperative efforts of OIG investigators, FDIC divisions and offices, U.S. Attorneys' Offices, and others

in the law enforcement community throughout the country.

A growing number of our cases address the increased incidence of mortgage fraud. Other significant cases during the reporting period involve securities fraud, embezzlement, money laundering, and bank fraud. The OIG's success in all such investigations contributes to ensuring the continued safety and soundness of the nation's banks.

Successful Mortgage Fraud Cases

Our office has successfully investigated a number of mortgage fraud cases over the past 6 months, several of which are described below. Our involvement in such cases is supplemented by our participation in a growing number of mortgage fraud task forces. According to the Federal Bureau of Investigation (FBI), mortgage fraud is one of the fastest growing white-collar crimes. Such illegal activity can cause financial ruin to homeowners and local communities. It can further impact local housing markets and the economy at large. Mortgage fraud can take a variety of forms and involve multiple individuals, as shown in the write-ups that follow.

Real Estate Appraiser Sentenced for Defrauding Financial Institutions

On August 29, 2008, an Illinois real estate appraiser was sentenced in the U.S. District Court for the Central District of Illinois to 60 months in prison, to be followed by 60 months of supervised release. A special assessment of \$400 was ordered. Restitution in the amount of \$1,051,852 was ordered to Central Illinois Bank, Chase Bank, CitiMortgage, and two other individuals. Restitution is joint and several with two other co-defendants.

As described in previous semiannual reports, from 1999 through 2005, the real estate appraiser, along with two other businessmen and a mortgage broker engaged in a real estate "land flipping" scheme to defraud real estate lenders, buyers, and sellers. One of the victim lenders, Central Illinois Bank, Champaign, Illinois, is an FDIC-regulated institution. The scheme involved more than 150 fraudulent real estate sales and financial transactions totaling more than \$8 million and resulted in the fraudulent receipt of more than \$3 million which the individuals converted to their personal use or used to promote their ongoing scheme.

Source: Suspicious Activity Report and a request by the U.S. Attorney's Office. Responsible Agencies: FDIC OIG, U.S. Postal Inspection Service, and the FBI. Prosecuted by the U.S. Attorney's Office, Central District of Illinois.

Guilty Plea in Florida Mortgage Fraud Case

On September 18, 2008, the former president of American Mortgage Link (AML) and Solutions Processing, Inc. (Solutions), both located in Tampa, FL, entered a guilty plea in the United States District Court for the Middle District of Florida, Tampa, FL, to a criminal Information charging him with conspiracy to commit wire fraud and to deprive Coast Bank of Florida of the intangible right of honest services.

According to the Information, the former president of these companies was engaged in the business of originating mortgage loans. Solutions was a shell company. The former president used his position at AML to charge AML clients who wanted residential home loans from Coast Bank a mortgage brokerage fee that was one percent higher than AML would otherwise have charged. He used bank accounts in the name of Solutions to receive the additional one percent brokerage fee and to facilitate the transfer of three-quarters of the additional one

percent charge to a co-conspirator. The former president kept the remaining one-quarter of the excess brokerage fee for himself.

Source: Referral from the Atlanta DSC and DRR Offices into suspicious loan activity at Coast Bank. **Responsible Agencies:** This is a joint investigation with the FBI and the Internal Revenue Service (IRS), Criminal Investigation Division. The case is being prosecuted by the U.S. Attorney's Office for the Middle District of Florida, Tampa, Florida.

Former Mortgage Broker Pleads Guilty

On June 5, 2008, in the Middle District of Louisiana, Baton Rouge, Louisiana, a former mortgage broker who assisted in a real estate development investment scheme in the Baton Rouge area pleaded guilty to one count of misprision of a felony.

In a conspiracy with others, the former mortgage broker created and provided fraudulent permanent loan commitments in construction loan application packages to First Guaranty Bank, Baton Rouge, Louisiana, an FDIC-regulated institution. The loan packages included false loan commitments, fraudulent loan applications, and inflated appraisals. The construction loans obtained provided the initial construction financing, and a portion of the proceeds was used to pay each of the

co-conspirators and the developer. First Guaranty funded 179 loans totaling \$33,296,834 behind this fraud scheme. First Guaranty has experienced losses in excess of \$4 million as a result of the scheme.

Source: DSC/Suspicious Activity Report. **Responsible Agencies:** FDIC OIG joint investigation with the FBI, Baton Rouge, LA. The case is being prosecuted by the U.S. Attorney's Office, Middle District of Louisiana, Baton Rouge, LA.

Guilty Pleas in New York Mortgage Fraud Case

During the reporting period, several individuals involved in a mortgage fraud scheme in Brooklyn, NY, entered guilty pleas to charges of conspiracy to commit bank fraud.

According to the indictments, from 2005 until February 2008, the individuals involved in the scheme recruited straw buyers with good credit scores to purchase residential properties within the boroughs of New York City. The defendants then pitched "investment opportunities" to the straw buyers. Under the terms of these investment opportunities, the straw buyers would apply for a mortgage on a property but would not be required to make mortgage payments or even take possession of the houses. The defendants further promised that the mortgage payments would be

made by either a group of investors or the payments would be covered by rental income generated by the property. In exchange for using their names and good credit, some of the straw buyers would receive a fee, typically in the range of \$5,000 to \$10,000 per property; others received no fee but were told that the investment would enhance their credit scores. The straw buyers were also promised that after a short period of time, their names would be removed from the property title. After the straw buyers had been identified, the individuals would identify properties to be used in the scheme, complete fraudulent mortgage applications, submit the applications to lenders, and arrange for the resulting loans to be closed.

Source: New York Mortgage Fraud Task Force. **Responsible Agencies:** This case is a joint investigation with the FBI. The case is being prosecuted by the U.S. Attorney's Office, Eastern District of New York, Brooklyn, New York.

Other Investigative Case Results

\$310 Million Restitution Sentencing for Bank Fraud

On May 21, 2008, a former loan customer of ten different financial institutions was sentenced in the U.S. District Court for the Middle District of Florida, Orlando Division, to 25 years in prison, to be followed by 3 years of probation. The Senior U.S. District Judge also signed a \$200 million money judgment and fined the individual a \$400 special assessment. Due to the large number of individual investor victims, a separate restitution hearing was held at a later date.

Beginning in 1989, the loan customer and other co-conspirators devised a scheme to defraud investors by offering stock investments in Transcontinental Airlines Travel Services. Shortly thereafter, investors were offered the opportunity to invest in an Employee Investment Savings Account program under the guise of Transcontinental Airlines. The loan customer and his co-conspirators falsely claimed to investors that their investments in the Employee Investment Savings Account program were insured by the FDIC up to \$100,000 and further insured up to \$1,000,000 by Lloyd's of London and AIG Insurance. They provided false

FDIC OIG Supports Operation Malicious Mortgage

The FDIC OIG participated in the Department of Justice announcement of Operation Malicious Mortgage on June 19, 2008. This initiative brings together federal law enforcement authorities throughout the United States to create a consolidated strategy to combat the threat that mortgage fraud poses to the U.S. housing industry and worldwide credit markets.

With respect to the FDIC OIG's activities in support of this initiative, we reported the following case statistics related to mortgage fraud for the period March 1, 2008 - June 19, 2008:

- 25 arrests
- 20 indictments/informations
- 13 convictions
- 3 sentencings
- Associated dollar losses of \$46.3 million

Since that time we have continued to successfully pursue such cases, as shown in our results for the reporting period. We are committed to continuing our involvement in this and other such initiatives as active participants in mortgage fraud task forces and working groups nationwide. We are pleased to partner with Department of Justice in combating mortgage fraud and appreciate the support of our colleagues throughout the Corporation as we work to ensure the integrity of the financial services and housing industries.

financial statements prepared by a fictitious accounting firm called "Cohen & Siegel" misrepresenting the financial status of Transcontinental Airlines and Transcontinental Airlines Travel Services.

Beginning in 2001, the co-conspirators devised another scheme to defraud a number of FDIC-insured institutions by applying for and

obtaining loans by submitting false financial statements and tax returns prepared by the fictitious accounting firm of "Cohen & Siegel" and another fictitious accounting firm named "S. Kaplan & Co." The co-conspirators pledged worthless stock to a number of the loans as security and submitted a number of documents signed

by an individual who had been dead for several years. Similar to the investment scheme, they defrauded FDIC-insured institutions by executing a “Ponzi” scheme in which money borrowed from the institutions would be paid to other FDIC-insured institutions for earlier loans.

The loan customer also engaged in a money laundering transaction in November 2006 when he wired \$500,000 from a bank account in Florida to a bank account located in the Netherlands, and engaged in a bankruptcy fraud transaction in March 2007 when he presented a fraudulent claim in the amount of approximately \$5.2 million.

On August 6, 2008, the Senior District Judge ordered the former loan customer to pay the victims in this case at total of \$310,149,284 in restitution. This amount includes \$141,182,672 in losses suffered by the individual victims who invested money in the Employee Investment Savings Account, another \$42,219,858 to the individual victims who purchased stock in Transcontinental Airlines Travel Services, Inc. or another entity affiliated with the defendant, and \$126,746,752 to the 10 institution victims that loaned money or provided a line of credit to the defendant or another related entity.

*Source: We initiated this investigation based on a referral from FDIC’s Kansas City DSC. **Responsible Agencies:** This is a joint investigation with the FBI, IRS Criminal Investigation Division, and the Florida Office of Financial Regulation. The case is being prosecuted by the U.S. Attorney’s Office for the Middle District of Florida, Orlando Division.*

Former Bank President, Customers, and Others Sentenced for Roles in Conspiracy to Commit Bank Fraud

On August 29, 2008, the former president of the now-defunct First National Bank of Northern Kentucky was sentenced in the United States District Court for the Eastern District of Kentucky to 9 months of incarceration to be followed by 3 years of supervised release. He paid restitution of \$150,626 to the Bank of Kentucky prior to sentencing.

As described in previous semiannual reports, two former bank customers, a married couple, obtained more than \$2.5 million in loans by false means in collusion with the former president. The former customers made false statements on loan applications and conspired with the former president to arrange loans to be made in the names of their various family members, supposedly for legitimate business purposes. The family members also participated in the scheme.

The former customers reportedly needed funding to develop and market a number of inventions. The couple admitted that this was done to evade bank lending limits and avoid federal lending regulations. The funds were then diverted for their personal use. They spent more than \$2.5 million on personal items out of about \$4.5 million loaned to them from March 2000 through July 2002.

On June 30, 2008, the two former customers were each sentenced in the United States District Court for the Eastern District of Kentucky to 24 months’ incarceration to be followed by 5 years of supervised release. They were also ordered to pay \$3,463,569 in restitution jointly and severally: \$2,463,569 to the Bank of Kentucky and \$1,000,000 to the Cincinnati Insurance Company. Another family member and her friend each received 5 years of supervised release and were ordered to pay restitution in the amount of \$43,623 and \$83,185, respectively, to the Bank of Kentucky.

Earlier in June, another family member pleaded guilty to one count of facilitation of theft by deception and was sentenced to 12 months of incarceration conditionally discharged for 2 years. She also paid \$28,000 of restitution to the Bank of Kentucky.

Source: DRR Resolution Report for the Chairman. Responsible Agencies: Joint Investigation by FDIC OIG and the FBI. Prosecuted by the U.S. Attorney's Office, Eastern District of Kentucky.

Bank Customer Pleads Guilty to Conspiracy

On July 29, 2008 in the U.S. District Court for the Western District of Missouri, the former president of Mid-Continent Specialists (MCS), a Kansas corporation, pleaded guilty to conspiracy.

MCS subcontracted roofing work to another individual doing business as LH Roofing, Inc. This second individual was involved in structuring and money laundering through his accounts at Union Bank, an FDIC-regulated institution in the Kansas City metropolitan area. The former president of MCS, also doing business as New Century Roofing, gave the individual at LH Roofing checks drawn on New Century's account at Hillcrest Bank. That individual then deposited the checks into one of his accounts at Union Bank and subsequently wrote checks to a number of Hispanic surname males. The checks were all for less than \$10,000 and were all cashed at Union Bank branches. During the little more than one year that the account was opened, approximately \$1.4 million moved through the LH Roofing account

in this fashion. In June 2007, FDIC agents assisted in the arrest of 38 individuals and the execution of a search warrant at the office of one of the roofing companies.

By pleading guilty, the former president of MCS admitted that he participated in two separate conspiracies to encourage illegal aliens to enter and reside in the United States for the purpose of commercial advantage and private financial gain.

The former president of MCS is the sixth co-defendant to plead guilty to charges contained in the federal indictment. Five other co-defendants pleaded guilty to participating in a money-laundering conspiracy. Two of the co-defendants also pleaded guilty to illegally reentering the United States after having been deported.

Source: U.S. Attorney's Office, Western District of Missouri. Responsible Agencies: Joint Investigation by FDIC OIG, U.S. Immigration and Customs Enforcement, and IRS. Prosecuted by the U.S. Attorney's Office, Western District of Missouri.

Former Real Estate Developer Pleads Guilty

On April 4, 2008 in the U.S. District Court for the Southern District of Mississippi, Jackson, Mississippi, the former owner of several real estate development companies in Mississippi pleaded guilty to an Information charging one count of

conspiracy to commit bank fraud.

The former owner defrauded 22 banks in Mississippi and Louisiana by double-pledging commercial real estate as collateral for loans. The fraud amounted to more than \$14.7 million, and losses to the banks totaled more than \$5.4 million. To carry out the scheme, the former real estate developer and co-conspirators (1) falsely stated in loan applications that one of the companies owned a property free of other liens, (2) executed fraudulent certificates of title to support claims of unencumbered real estate, (3) fraudulently filed a cancellation of the bank's deeds of trust, and (4) forged title insurance commitments. The other subjects in the case were to be charged at a later date.

Source: Suspicious Activity Reports/DSC. Responsible Agencies: Joint investigation by FDIC OIG, FBI, and IRS Criminal Investigation Division. Prosecuted by the U.S. Attorney's Office, Southern District of Mississippi.

Guilty Pleas in Home Equity Line of Credit Fraud Case

Over the past 6-month period, a total of seven individuals pleaded guilty in the District of New Jersey to various charges in connection with a massive home equity line of credit (HELOC) fraud scheme.

In this scheme, approximately 20 individuals conspired to

fraudulently obtain more than \$20 million in home equity loans and business lines of credit. Victims include at least 16 different lenders in northern New Jersey, including Woori American Bank and Royal Asian Bank. In a HELOC, a borrower pledges the equity in the borrower's property as security for the line of credit. The bank's security interest in the property is then publicly recorded so that other lenders will be aware of prior claims on the property. The ring-leader of the scheme in this case, along with his co-conspirators, executed the scheme by closing on multiple HELOCs in a short period of time so that the earlier lenders' security interests would not yet be publicly recorded. To illustrate—in one instance the co-conspirators arranged for clients to enter into HELOC agreements with eleven different banks, in which less than \$300,000 of equity in a property was mortgaged as security for approximately \$1.35 million in credit.

Source: We initiated this investigation based on a request for assistance from the U.S. Attorney's Office, Newark, New Jersey. **Responsible Agencies:** This is a joint investigation with the FBI. The case is being prosecuted by the U.S. Attorney's Office for the District of New Jersey.

Four Sentenced for Bank Fraud and Social Security Administration Supplemental Security Income Fraud

On June 25, 2008, the former president of Franklin County Financial Services (FCFS), a subsidiary of the Bank of Franklin, was sentenced in the U.S. Southern District of Mississippi to 46 months of federal incarceration, to be followed by 5 years of supervised release. He was also ordered to pay restitution of \$145,142 to the Bank of Franklin. Previously, he had pleaded guilty to one count of bank fraud and one count of Social Security Supplemental Security Income fraud.

From 1995 to 2003, the former president of FCFS made loans to two former borrowers using false Social Security numbers and to a nominee borrower, a former secretary at FCFS. The borrowers failed to make consistent and timely repayments. The former president did not attempt to collect repayments from these borrowers. Instead, he transferred balances of their old loans to new loans. This prevented the loans from defaulting and being written off. The bank estimated a loss of \$606,957 due to these activities.

On April 28, 2008, one of the borrowers was sentenced to 11 months of incarceration, to be followed by 5 years and 3 months of supervised release, and ordered to pay restitution of \$45,290 to the Bank of Franklin. She had pleaded guilty earlier to one count of bank fraud and one count of Social Security Supplemental Security Income fraud. The second borrower was sentenced to 10 months' incarceration, to be followed by 5 years of supervised release, and ordered to pay restitution of \$51,384 to the Bank of Franklin. She had pleaded guilty earlier to one count of bank fraud. The former secretary was sentenced to one day of incarceration and given credit for time served. She is to serve one month of house arrest on weekends and 4 years of supervised release. She was ordered to pay restitution of \$7,493 to the Bank of Franklin. She, too, had pleaded guilty earlier to one count of bank fraud.

Source: Suspicious Activity Report. **Responsible Agencies:** Joint investigation by the FDIC OIG and the Social Security Administration OIG. Prosecuted by the U.S. Attorney's Office, Southern District of Mississippi.



Strong Partnerships with Law Enforcement Colleagues

The OIG has partnered with many U.S. Attorneys' Offices throughout the country in bringing to justice individuals who have defrauded the FDIC or financial institutions within the jurisdiction of the FDIC, or criminally impeded the FDIC's examination and resolution processes. The alliances with the U.S. Attorneys' Offices have yielded positive results during this reporting period. Our strong partnership has evolved from years of hard work in pursuing offenders through parallel criminal and civil remedies resulting in major successes, with harsh sanctions for the offenders. Our collective efforts have served as a deterrent to others contemplating criminal activity and helped maintain the public's confidence in the nation's financial system.

During the reporting period, we partnered with U.S. Attorneys Offices in the District of Columbia and following states: Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Tennessee, Texas, Utah, Vermont, and Virginia.

We also worked closely with the Department of Justice, FBI, other OIGs, state and local law enforcement officials, and FDIC divisions and offices as we conducted our work during the reporting period.

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STRATEGIC GOAL 2: THE OIG WILL HELP THE FDIC MAINTAIN THE VIABILITY OF THE INSURANCE FUND

Federal deposit insurance remains a fundamental part of the FDIC's commitment to maintain stability and public confidence in the Nation's financial system. Of significance, shortly after the close of the reporting period, with enactment of the Emergency Economic Stabilization Act of 2008, the limit of the basic FDIC deposit insurance coverage has been raised temporarily from \$100,000 to \$250,000 per depositor, through December 31, 2009. A priority for the FDIC is to ensure that the Deposit Insurance Fund (DIF) remains viable to protect depositors in the event of an institution's failure. This fund was at \$45.2 billion as of June 30, 2008, but had decreased to \$34.6 billion during the third quarter of 2008. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

The FDIC, in cooperation with the other primary federal regulators, proactively identifies and evaluates the risk and financial condition of every insured depository institution. The FDIC also identifies broader economic and financial risk factors that affect all insured institutions. The FDIC is committed to providing accurate and timely bank data related to the financial condition of the banking industry.

Industry-wide trends and risks are communicated to the financial industry, its supervisors, and policymakers through a variety of regularly produced publications and ad hoc reports. Risk-management activities include approving the entry of new institutions into the deposit insurance system, off-site risk analysis, assessment of risk-based premiums, and special insurance examinations and enforcement actions. In light of increasing globalization and the interdependence of financial and economic systems, the FDIC also supports the development and maintenance of effective deposit insurance and banking systems world-wide.

Primary responsibility for identifying and managing risks to the DIF lies with the FDIC's Division of Insurance and Research, DSC, and DRR. To help integrate the risk management process, the FDIC established the National Risk Committee, a cross-divisional body. Also, a Risk Analysis Center monitors emerging risks and recommends responses to the National Risk Committee. In addition, a Financial Risk Committee focuses on how risks impact the DIF and financial reporting.

Large banks pose unique risks to the DIF, as illustrated by the failure of IndyMac Bank in July

2008, which caused an \$8.9 billion loss to the DIF. Over recent years, the consolidation of the banking industry has resulted in fewer and fewer financial institutions controlling an ever expanding percentage of the Nation's financial assets. Although the FDIC may not be the primary federal regulator for these large financial institutions, it is responsible for insuring their deposits and for resolution in the event one or more of these institutions fail. In recent years, the FDIC has taken a number of measures to strengthen its oversight of the risks to the insurance fund posed by the largest institutions, and its key programs include the following:

- Large Insured Depository Institution Program,
- Dedicated Examiner Program,
- Shared National Credit Program, and
- Off-site monitoring systems.

The Congress enacted deposit insurance reform in early 2006 to give the FDIC more discretion in managing the DIF and allow the Corporation to better price deposit insurance based on risk. In 2006, the Board adopted a number of final rules implementing specific reforms concerning the one-time assessment credit, risk-based assessments, the designated reserve ratio, and put in place



Mrs. Lydia Lobsiger was the first insured depositor paid by the FDIC. She received her payment of \$1,250 at a closed bank in Peoria, Illinois, in July 1934.

a temporary rule for dividends. In 2007, the Corporation made significant changes to its information technology (IT) systems and business processes in order to prepare invoices and collect assessments in accordance with the new risk-based assessment and credit rules. In September 2007, the Board adopted an advance notice of proposed rulemaking seeking comment on alternative approaches to allocate dividends. During 2008, the FDIC expected to publish proposed and final dividend rules to replace the temporary rule, which will sunset at the end of this year. The Corporation will continue to modify as necessary the processes and systems implementing the new rules and evaluate the effectiveness of the new assessment methods and processes in light of recent events. Finally, for both 2007 and 2008, the Board adopted a designated (target) reserve ratio of 1.25 percent, which has resulted in the need to set risk-based assessment rates above the base rate schedule in order to gradually raise the reserve ratio to the target. As of the third quarter of 2008, that ratio was at 0.76 percent. A recent FDIC DIF restoration plan and an assessments proposal are intended to replenish the fund.

To help the FDIC maintain the

viability of the DIF, the OIG's **2008 performance goals** were as follows:

- Evaluate corporate programs to identify and manage risks in the banking industry that can cause losses to the fund.
- Evaluate selected aspects of implementation of deposit insurance reform.

OIG Work in Support of Goal 2

As of the end of the reporting period, we had two ongoing audits in this strategic goal area. In the first, we are assessing the Corporation's internal controls for performing off-site monitoring activities of insured depository institutions. As part of this review, we are assessing the FDIC's implementation of recommendations made by the Government Accountability Office pertaining to strengthening the FDIC's risk assessment activities through periodic reviews and evaluations of the Corporation's off-site monitoring systems.

We have also contracted with KPMG, LLP (KPMG) to perform an audit of the FDIC investment program, including the DIF portfolio and the National Liquidation Fund. The audit objective is to assess the FDIC's controls for ensuring that the DIF and National

Liquidation Fund portfolios are managed consistent with the FDIC's approved investment policies, procedures, and practices. This assignment is a follow-on to work we conducted in 2005 related to the FDIC's investment policies. The FDIC Chairman at the time requested that the OIG conduct an independent audit of the corporate investment program every 3 years and include the investment policies applicable to the National Liquidation Fund. Also at the end of the reporting period, we were anticipating conducting work related to the IndyMac failure, in such areas as the FDIC's monitoring and awareness of the institution, its planning of resolution activities, and its execution of closing activities.

STRATEGIC GOAL 3: THE OIG WILL ASSIST THE FDIC TO PROTECT CONSUMER RIGHTS AND ENSURE CUSTOMER DATA SECURITY AND PRIVACY

Consumer protection laws are important safety nets for Americans. The U.S. Congress has long advocated particular protections for consumers in relationships with banks. For example:

- The **Community Reinvestment Act** encourages federally insured banks to meet the credit needs of their entire community.
- The **Equal Credit Opportunity Act** prohibits creditor practices that discriminate based on race, color, religion, national origin, sex, marital status, or age.
- The **Home Mortgage Disclosure Act** was enacted to provide information to the public and federal regulators regarding how depository institutions are fulfilling their obligations towards community housing needs.
- The **Fair Housing Act** prohibits discrimination based on race, color, religion, national origin, sex, familial status, and handicap in residential real-estate-related transactions.
- The **Gramm-Leach Bliley Act** eliminated barriers preventing the affiliations of banks with securities firms and insurance companies and mandates new privacy rules.

- The **Truth in Lending Act** requires meaningful disclosure of credit and leasing terms.
- The **Fair and Accurate Credit Transaction Act** further strengthened the country's national credit reporting system and assists financial institutions and consumers in the fight against identity theft.

The FDIC serves a number of key roles in the financial system and among the most important is the FDIC's work in ensuring that banks serve their communities and treat consumers fairly. The FDIC carries out its role by providing consumers with access to information about their rights and disclosures that are required by federal laws and regulations and examining the banks where the FDIC is the primary federal regulator to determine the institutions' compliance with laws and regulations governing consumer protection, fair lending, and community investment. As of June 30, 2008, the Corporation had conducted 866 Community Reinvestment Act/Compliance examinations. As a means of remaining responsive to consumers, the FDIC's Consumer Response Center investigates consumer complaints about FDIC-supervised institutions and responds to consumer inquiries about consumer laws

and regulations and banking practices. The volume of calls and inquiries to the Call Center increased significantly during the reporting period, largely due to the increase in bank failures and consumer concerns regarding insurance coverage and the safety and soundness of their banks.

Recent events in the credit and mortgage markets present regulators, policymakers, and the financial services industry with serious challenges. The Chairman is committed to working with the Congress and others to ensure that the banking system remains sound and that the broader financial system is positioned to meet the credit needs of the economy, especially the needs of creditworthy households that may experience distress. Another important FDIC initiative and a priority for the FDIC Chairman has been to promote expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream and the protections afforded them by deposit insurance.

In 2007, the federal bank, thrift, and credit union regulatory agencies issued the *Statement on Subprime Mortgage Lending* to address issues relating to certain adjustable-rate mortgage prod-

ucts that can result in payment shock. The statement describes prudent safety and soundness and consumer protection standards that institutions should follow to ensure borrowers obtain loans they can afford to repay. The agencies also published illustrations of consumer information designed to help institutions implement the consumer protection portion of the *Interagency Guidance on Nontraditional Mortgage Product Risks*. The illustrations should help consumers better understand nontraditional mortgage products and associated payment options. The FDIC continues to focus attention on ensuring that the industry and consumers understand the risks and benefits associated with various mortgage lending activities and programs. The Chairman's public education campaign on deposit insurance in conjunction with the FDIC's 75th anniversary and her emphasis on the importance of personal savings and responsible financial management are additional consumer-focused initiatives.

Consumers today are also concerned about data security and financial privacy. Banks are increasingly using third-party servicers to provide support for core information and transaction processing functions. Of note, the

increasing globalization and cost saving benefits of the financial services industry are leading many banks to make greater use of foreign-based service providers. Although generally permissible, this outsourcing practice raises certain risks. The obligations of a financial institution to protect the privacy and security of information about its customers under applicable U.S. laws and regulations remain in full effect when the institution transfers the information to either a domestic or foreign-based service provider. In June 2008, the FDIC published *Guidance for Managing Third-Party Risk*, which identifies sound practices to help banks avoid safety and soundness and compliance problems that can result from such third-party relationships.

Every year fraud schemes rob depositors and financial institutions of millions of dollars. The OIG's Office of Investigations can identify, target, disrupt, and dismantle criminal organizations and individual operations engaged in fraud schemes that target our financial institutions or that prey on the banking public. OIG investigations have identified multiple schemes that defraud depositors. Common schemes range from identity

fraud to Internet scams such as "phishing" and "pharming".

The misuse of the FDIC's name or logo has also been identified as a scheme to defraud depositors. Such misrepresentations have led depositors to invest on the strength of FDIC insurance while misleading them as to the true nature of the investment products being offered. These depositors, who are often elderly and dependent on insured savings, have lost millions of dollars in the schemes. Further, abuses of this nature may erode public confidence in federal deposit insurance. As discussed in previous semiannual reports, the OIG has been a strong proponent of legislation to address such misrepresentations. We are pleased that the Emergency Economic Stabilization Act of 2008, signed by the President on October 3, 2008 contains provisions that address this issue.

Investigative work related to such fraudulent schemes is ongoing and will continue. With the help of sophisticated technology, the OIG continues to work with FDIC divisions and other federal agencies to help with the detection of new fraud patterns and combat existing fraud. Coordinating closely with the Corporation and the various U.S. Attorneys' Offices, the OIG will help to sustain

public confidence in federal deposit insurance and goodwill within financial institutions.

To assist the FDIC to protect consumer rights and ensure customer data security and privacy, the OIG's **2008 performance goals** were as follows:

- Contribute to the effectiveness of the Corporation's efforts to ensure compliance with consumer protections at FDIC-supervised institutions.
- Conduct investigations of fraudulent representations of FDIC affiliation or insurance that negatively impact public confidence in the banking system.

OIG Work in Support of Goal 3

At the end of the reporting period, we had an audit assignment ongoing in support of this goal related to consumer credit underwriting practices in community banks. In that audit, we are assessing the FDIC's risk management examination coverage of financial institutions' underwriting practices for consumer loans not secured by real estate. Specifically, we are assessing the FDIC's coverage of underwriting practices for Other Consumer Loans, which are reported as part of the institutions' Call Report

data. Results of this assignment will be reported in an upcoming semiannual report. At the Chairman's request, our evaluations group is also conducting work in the area of enforcement actions for compliance violations.

Investigative work related to protection of personal information and misrepresentation of deposit insurance also supported this strategic goal area during the reporting period, as described below.

Office of Investigations Works to Curtail Misrepresentation of FDIC Insurance or Affiliation and Identity Theft Schemes

As illustrated in the example below, unscrupulous individuals sometimes attempt to misuse the FDIC's name, logo, abbreviation, or other indicators to suggest that deposits or other products are fully insured. Such misrepresentations induce the targets of schemes to trust in the strength of FDIC insurance while misleading them as to the true nature of the insurance investments being offered. Abuses of this nature harm consumers and can also erode public confidence in federal deposit insurance. Our Office of Investigations works to counteract these abuses and also partners with others to pursue cases of this type.

Identity theft also continues to become more sophisticated, and the number of victims is growing. Identity theft includes using the Internet for crimes such as "phishing" emails and "pharming" Web sites that attempt to trick people into divulging their private financial information. Schemers pretend to be legitimate businesses or government entities with a need for the information that is requested. The OIG's Electronic Crimes Unit (ECU) responds to such phishing and pharming scams involving the FDIC and the OIG, as described further below.

Florida Man Pleads Guilty to Securities Fraud in Hedge Fund Scheme

On July 22, 2008, in the Northern District of Texas, the former co-owner of Capital 1st Financial, pleaded guilty to an Information charging him with one count of securities fraud.

The former co-owner of the firm is the third defendant charged in this securities fraud case. He and his associates misled investors into purchasing interest in a hedge fund known as Secured Capital Trust (SCT). He received approximately \$5,230,973 from investors through the sale of SCT in a marketing scheme involving representations of FDIC insur-

ance. The marketing scheme included newspaper advertisements for FDIC-insured certificates of deposit paying above market rates. When investors responded to the advertisements, they were “baited and switched” into SCT.

Another individual, who previously pleaded guilty in this case, was the primary salesman of SCT and told investors that the funds invested in SCT were placed in FDIC-insured certificates of deposit or pools of FDIC-insured certificates of deposit. The former co-owner of Capital 1st then used the funds from the sale of SCT to purchase shares of Interfinancial Holdings Corporation, a thinly-traded penny stock trading under the ticker symbol IFCH. He failed to disclose to investors that he and his partners owned millions of shares of IFCH and they were receiving “kickbacks” for purchasing IFCH stock with investor funds.

Another individual who has also pleaded guilty in this case participated in the scheme by purchasing and selling IFCH stock on the open market in an attempt to manipulate and increase the share price.

The State of Florida, Office of Financial Regulations, filed a temporary injunction, appointed a receiver, and shut down Capital 1st Financial. The IFCH stock price

subsequently fell and the investors lost the majority of their funds. The receiver’s Web site indicates investors will lose about 95 percent of their investment in SCT.

*Source: The U.S. Securities and Exchange Commission and the FBI.
Responsible Agencies: Joint investigation by the FDIC OIG and the FBI.*

Electronic Crimes Unit Success

During the reporting period, the ECU continued its casework related to fraudulent emails involving the FDIC. The emails, purportedly from the FDIC, attempted to entice victims to divulge personal information and/or pay a deposit to receive an insurance settlement. To date, in investigating these cases, the ECU was able to have 51 fraudulent email accounts deactivated. In these cases, the ECU traced the schemes to locations outside of the United States. The ECU has made contact with law enforcement in the foreign country where the emails appear to have originated and will continue to work with foreign law enforcement in investigating these fraudulent schemes that falsely use the FDIC name.

The ECU also provided forensic computer assistance on 17 existing and 8 new FDIC OIG cases during the reporting period. The cases involved bank fraud at open and

closed financial institutions and employee misconduct cases involving the improper use of FDIC computers. The forensic computer assistance involved the analysis of electronic evidence gathered from computers and other electronic media. The ECU typically searches the electronic evidence for key-words or phrases; searches for documents, emails, and other artifacts; and recreates specialized software applications such as accounting software.

4

STRATEGIC GOAL 4: THE OIG WILL HELP ENSURE THAT THE FDIC IS READY TO RESOLVE FAILED BANKS AND EFFECTIVELY MANAGES RECEIVERSHIPS

The FDIC protects depositors of insured banks and savings associations. In the FDIC's history, no depositor has experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. One of the FDIC's most important roles is acting as the receiver or liquidating agent for failed FDIC-insured institutions. The success of the FDIC's efforts in resolving troubled institutions has a direct impact on the banking industry and on the taxpayers.

DRR's responsibilities include planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and efficient administration of failing and failed financial institutions in order to maintain confidence and stability in our financial system.

- The **resolution process** involves valuing a failing federally insured depository institution, marketing it, soliciting and accepting bids for the sale of the institution, considering the least costly resolution method, determining which bid to accept, and working with the acquiring institution through the closing process.
- The **receivership process** involves performing the closing function at the failed bank;

liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims.

The FDIC's resolution and receivership activities pose tremendous challenges. As indicated by the trends in mergers and acquisitions, banks have become more complex, and the industry is consolidating into larger organizations. As a result, the FDIC has been called upon to handle failing institutions with significantly larger numbers of insured deposits than it has had to deal with in the past. As referenced earlier in this report, one such institution was IndyMac Bank, F.S.B., Pasadena, CA, with estimated losses to the DIF of \$8.9 billion.

IndyMac was closed on July 11 by the Office of Thrift Supervision. The FDIC was named conservator. The FDIC subsequently transferred insured deposits and substantially all the assets of IndyMac Bank, F.S.B., Pasadena, CA, to IndyMac Federal Bank, FSB. Brokered deposits are held by the FDIC and those insured deposits are paid off when the insurance determination is completed. IndyMac Bank, F.S.B. had total assets of \$32.01 billion and total deposits of \$19.06 billion as of March 31,

2008. As conservator, the FDIC has been operating IndyMac Federal Bank, FSB to maximize the value of the institution for a future sale and to maintain banking services in the communities formerly served by IndyMac Bank, F.S.B.

During 2008 through the end of October, 17 FDIC-insured institutions have failed. This number compares to three failures in 2007 and no failures prior to that since June 2004. The number of problem institutions increased during the third quarter from 117 to 171. Correspondingly, total assets of problem institutions increased from \$78.3 billion to \$115.6 billion. At the end of the reporting period, DRR was managing the IndyMac conservatorship and selling receivership assets from 12 recent bank failures. To meet its workload demands, DRR has been authorized to hire both permanent and temporary employees. DRR is also taking advantage of the Corporation's cross-training to create a flexible workforce where examiners can support resolution activities and resolution specialists can support examination activities.

The FDIC must set far-reaching plans for the future to keep pace with a changing industry. DRR has developed models to train FDIC staff and prepare for differing circumstances. One major corpo-



June 29, 1939: Interior view of the closed Hamilton Trust Co. of Patterson, New Jersey, as FDIC officials started paying out 21,000 depositors the \$2.7 million representing their insured claims.

rate initiative has been the Corporation's Strategic Readiness Project, which the OIG has monitored since project inception, as discussed below. We understand that project has been deferred in light of current resolution activities.

While OIG audits and evaluations address various aspects of resolution and receivership activities, OIG investigations benefit the Corporation in other ways. That is, in the case of bank closings where fraud is suspected, our Office of Investigations (OI) sends case agents and computer forensic special agents from the ECU to the institution. ECU agents use special investigative tools to provide computer forensic support to OI's investigations by obtaining, preserving, and later examining evidence from computers at the bank. During the reporting period, OI attended 10 bank closings and provided forensics support for most of those.

The OIG also coordinates closely with DRR on concealment of assets cases. In many instances, the FDIC debtors do not have the means to pay fines or restitution owed to the Corporation. However, some individuals do have the means to pay but hide their assets and/or lie about their ability to pay. OI works closely with both DRR and the Legal Division in pursuing criminal investigations of these individuals.

To help ensure the FDIC is ready to resolve failed banks and effectively manages receiverships, the OIG's **2008 performance goals** were as follows:

- Evaluate the FDIC's plans and systems for managing bank resolutions.
- Investigate crimes involved in or contributing to the failure of financial institutions or which lessen or otherwise affect recoveries by the DIF, involving restitution or otherwise.

OIG Work in Support of Goal 4

During the reporting period, the OIG completed multiple assignments in support of this strategic goal area. Our Evaluations group reviewed the FDIC's Contingency Planning for Large-Scale Resolution Activity. With the failure of IndyMac in July, the IG and one of our staff conducted a High-Level Controls Review of the IndyMac Conservatorship. Additionally, our Office of Audits conducted an audit of internal control in the FDIC's receivership accounting process and an audit of protection of resolution and receivership data managed or maintained by FDIC contractors. We also continued monitoring corporate efforts to prepare for

large bank failures, including the Corporation's efforts to develop and implement a new insurance determination system by 2009. These efforts are discussed below:

Contingency Planning for Large-Scale Resolution Activity

Our evaluation objectives were to (1) assess the FDIC's strategies and plans to be prepared for large-scale resolution activity and (2) identify any gaps or obstacles associated with the tactical aspects of carrying out large-scale resolution efforts and suggest opportunities for improvement. Tactical issues are the logistics associated with deploying people, equipment, and supplies, and downloading and processing data to necessary systems.

We reported that the FDIC had taken contingency planning seriously for a number of years and had developed plans and processes for responding to large-scale resolution activity. However, we made several observations related to project management of readiness efforts; scenarios and baseline assumptions used in planning documents; logistics testing for large or multiple bank scenarios; viability and credibility of personnel and contracting assumptions; and coordination and planning for long-term IT needs.

We provided our observations to the Director of DRR, members of the Resolution Policy Committee, selected division directors, the Acting Chief Operating Officer, and the Chairman. In light of the FDIC's increased workload due to actual and expected failures that began to occur in July, we concluded our work as of June 24, 2008 so as not to interfere with resolution efforts, and we offered to provide further assistance on the issues that we identified.

High-Level Controls Review of the IndyMac Conservatorship

We conducted a high-level controls review of IndyMac Federal Bank, FSB, the conservatorship established for the closed thrift, IndyMac Bank, F.S.B. in Pasadena, California. Our objective was to provide FDIC management supervising the conservatorship with information and suggestions regarding the continuing responsibilities of the internal audit and risk management functions. Our intent was to assist the FDIC in a timely manner in protecting the value of the conservatorship and its assets and the integrity of its operations.

We issued a memorandum to conservatorship management and made four suggestions. These included clearly articulating and communicating to the internal

audit and risk management staff that the new focus of the conservatorship should be on maximizing the value of the institution for a future sale, preserving the value of the assets, protecting customer rights, and maintaining public confidence. Additionally we suggested that a Chief Audit Executive be appointed and that planned audits and audit issues be pursued. Finally, we suggested that risk management staff activities, mission, roles, and responsibilities be agreed upon.

FDIC generally agreed with our suggestions and had either taken or planned to take action in response.

FDIC's Receivership Service Billing Process

We conducted an audit to assess the design and implementation of controls over the FDIC's receivership service billing process. Our audit focused on controls intended to ensure that receiverships are fairly and accurately billed in accordance with applicable laws and regulations.

When an FDIC-insured institution fails or is closed by a federal or state regulatory agency, the FDIC is appointed as receiver. The FDIC billed \$21 million in 2007 to 45 receiverships for work conducted

on behalf of the receiverships by Corporation employees. Receivership billings reduce the cash available for dividend payments, including those to uninsured depositors and other claimants. Therefore, the FDIC's receivership service billing process is intended to ensure effective cost monitoring and that control activities are in place and observed to promote fairness in servicing operations.

The Federal Deposit Insurance Act permits the FDIC to charge its receiverships all of the expenses of liquidation as are fixed by the FDIC. The FDIC adopted an implementing regulation governing administrative expenses of a receivership. Additionally, the FDIC has developed internal guidance related to cost monitoring and control activities for receivership billings.

We concluded that the FDIC has designed and implemented controls over the receivership service billing process to ensure that receiverships are fairly and accurately billed in accordance with applicable laws and regulations. The process for establishing the FDIC's 2008 service line rates for receivership billings was documented in rate cases approved by the FDIC's Chief Financial Officer for each service line. The six rate cases

we examined were accurately calculated and fully supported.

Although adequate controls have been designed and implemented to ensure that billings by service line are reviewed, controls for ensuring that billings are reviewed for the receiverships can be strengthened. Specifically, DRR is not providing the same level of review to individual receiverships as that provided to the service lines. Such reviews, which include certification, provide added assurance that billings are reasonable. Fully documenting the receivership billing review procedures, as well as the billing review results, and certifying the Receivership Oversight Section reviews similar to the review process for service line billings would help to ensure that the FDIC thoroughly and consistently fulfills the role of advocate for the interests of the receiverships.

We recommended that FDIC management strengthen the receivership advocacy role of the Receivership Oversight Section by: updating guidance, as necessary, to clarify instructions for receivership billing reviews performed, including the frequency of reviews; fully documenting the review procedures performed; and certifying or otherwise documenting the results of

reviews conducted, including the reasonableness of the charges.

Management concurred with our recommendation and is taking responsive action.

Protection of Resolution and Receivership Data Managed or Maintained by an FDIC Contractor

The FDIC has established a risk-based corporate-wide security program and a privacy program to protect the sensitive information the Corporation manages. These programs include guidance for contractors and FDIC to help ensure contractors are complying with government-wide and FDIC information security policies and procedures.

We conducted an audit to (1) determine whether the closing support contract used by the DRR Business Information Systems (BIS) Section contains privacy and information security clauses to protect pre-closing and failed institution data and (2) evaluate the steps the FDIC Oversight Manager (OM) takes to ensure the contractor is complying with privacy and information security clauses.

The FDIC collects sensitive information when conducting resolution and receivership activities at FDIC-insured financial

institutions. Such information includes personally identifiable information (e.g., name, address, Social Security number, phone number, and account and loan data) for institution depositors, borrowers, and employees. DRR's BIS Section, located in the FDIC's Dallas Regional Office, is responsible for securing all the operating systems, data, and hardware once a failing institution is closed. To that end, DRR has established a Basic Ordering Agreement (BOA) to obtain IT support for the BIS Section. A BOA is an agreement setting forth the terms and conditions to be applied to future task orders.

We determined that DRR's closing support BOA contains the necessary privacy and information security clauses consistent with FDIC guidance that was in place when the FDIC awarded the contract. Moreover, the Statement of Work contains a clause requiring that the contractor comply with all FDIC policies and procedures, including any new policies and procedures developed during the contract term.

The OM is taking multiple steps to ensure the contractor is aware of, and complying with, the privacy and information security clauses. For example, the OM reviewed the contractor's IT security plan



February 14, 1939: FDIC employees post a notice telling depositors their bank had failed and that their deposits were protected up to \$5,000.

and routinely monitors the status of background investigations for contractor personnel. The OM is planning to take additional steps to ensure the contractor has complied with the FDIC's training requirements and to sustain contractor attention regarding its responsibilities for safeguarding information. With regard to IT equipment, the OM is working to protect sensitive information maintained on laptop computers formerly and currently in use.

We noted one area that warranted additional attention. The Contracting Officer and OM found confidentiality agreements for only 32 (70 percent) of 46 contractor personnel. Such agreements document an individual's understanding of, and commitment to, safeguarding data and are a key security requirement under the contract. FDIC policy and the BOA are clear that the Contracting Officer is responsible for ensuring that contractor personnel sign the agreements and for maintaining them in the contract file.

To further protect sensitive resolution and receivership information, we recommended that the FDIC establish controls to ensure that Contracting Officers obtain signed Confidentiality Agreements from all contractor personnel required

to submit such agreements and maintain copies of those agreements in the contract file. Management concurred with our recommendation and is taking responsive corrective action.

Monitoring the FDIC's Strategic Readiness Project

The failure of a large bank is not only one of the greatest risks to the DIF but it is also an event that could shake the public's confidence in the nation's financial system. Recognizing its role in resolving failed institutions and maintaining public confidence, the FDIC developed a Strategic Readiness Project to test and evaluate its processes for handling a large bank failure. The purpose of the project, which began in January 2007, was to test the command and control plan associated with a large bank failure, enhance the FDIC's ability to determine an effective resolution strategy, advance knowledge of the process, and identify lessons learned. The FDIC's Corporate University has directed this project and used focused exercises and high-level simulations to test and evaluate its processes. During the reporting period, the OIG continued to monitor this project.

We have also continued to monitor

the Corporation's Claims Administration System—specifically, we are attending status meetings of the working group and offering perspectives to help ensure the success of that effort.

5

STRATEGIC GOAL 5: THE OIG WILL PROMOTE SOUND GOVERNANCE AND EFFECTIVE STEWARDSHIP AND SECURITY OF HUMAN, FINANCIAL, IT, AND PHYSICAL RESOURCES

The FDIC must effectively manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, IT, and physical resources.

Human Resources: In the aftermath of corporate downsizing, and in light of a growing number of employees with retirement eligibility, the FDIC was faced with significant human capital challenges. The FDIC established a human capital framework and strategy to guide its evolution toward a more flexible permanent workforce that would be capable of responding rapidly to significant changes in the financial services industry or unexpected changes in workload or priorities. The implementation of the Corporate Employee Program, the Succession Management Program, and the Leadership Development Program are initiatives to that end. To cross-train employees and build a more diverse and ready workforce, the FDIC also created the Professional Learning Account program to allocate time and money for each qualified employee to manage, in partnership with the employee's supervisor, the employee's learning goals.

The FDIC's authorized staffing increased from 4,810 at the beginning of the year to 5,621

as of September 30, 2008, due to the increase in receivership and resolution activity and the elevated examination workload. Most of the increase is for hiring non-permanent employees to aid in the current crisis.

In the interest of making the FDIC an employer of choice, increasing FDIC employee engagement and empowerment, enhancing trust between FDIC managers and employees, and refining the Corporation's pay-for-performance system, the Chairman of the FDIC spearheaded a comprehensive employee survey that was carried out by an independent consulting group during 2007. The Chairman has shown her commitment to effecting necessary changes based on the results of the survey through her Culture Change Initiative, which is currently underway.

In an age of identity theft risks, another human capital management responsibility at the FDIC is to maintain effective controls to protect personal employee-related information that the Corporation possesses. The appointment of a chief privacy officer and implementation of a privacy program have been positive steps in addressing that challenge. Further, the FDIC has established a process for conducting privacy impact assess-

ments of its information systems containing personally identifiable information that is consistent with relevant privacy-related policy, guidance, and standards.

Supplementing the FDIC workforce are contractors providing services for the Corporation. According to the Corporation's New Financial Environment data, the FDIC had \$1.61 billion in outstanding contracts as of September 30, 2008, and had awarded approximately \$505 million in contracts during 2008. As a good steward, the FDIC must ensure it receives the goods and services purchased with corporate funds and have effective contractor oversight controls in place as well.

Financial Resources: The Corporation does not receive an annual appropriation, except for its OIG, but rather is funded by the premiums that banks and thrift institutions pay for deposit insurance coverage, the sale of assets recovered from failed banks and thrifts, and from earnings on investments in U.S. Treasury securities.

The FDIC Board of Directors approves an annual Corporate Operating Budget to fund the operations of the Corporation. For 2008, the approved budget totaled \$1.14 billion. The operating

budget provides resources for the operations of the Corporation's three major programs or business lines—Insurance, Supervision, and Receivership Management—as well as its major program support functions (legal, administrative, financial, IT, etc.). Program support costs are allocated to the three business lines so that the fully loaded costs of each business line are displayed in the operating budget approved by the Board.

In addition to the Corporate Operating Budget, the FDIC has a separate Investment Budget that is composed of individual project budgets approved by the Board of Directors for major investment projects. Budgets for investment projects are approved on a multi-year basis, and funds for an approved project may be carried over from year to year until the project is completed. A number of the Corporation's more costly IT projects are approved as part of the investment budget process.

Expenditures from the Corporate Operating and Investment Budgets are paid from two funds managed by the FDIC—the DIF and the Federal Savings and Loan Insurance Corporation Resolution Fund.

IT Resources: At the FDIC, the Corporation seeks to leverage IT to support its business goals

in insurance, supervision and consumer protection, and receivership management, and to improve the operational efficiency of its business processes. The FDIC needs to continue to focus on the capital planning and investment processes for IT and maximize the effectiveness of the Chief Information Officer Council and Project Management Office, both of which play an important role in reviewing the portfolio of approved IT projects and other initiatives. The Corporation has also worked to enhance its Enterprise Architecture program by identifying duplicative resources/ investments and opportunities for internal and external collaboration to promote operational improvements and cost-effective solutions to business requirements.

Along with the positive benefits that IT offers comes a certain degree of risk. In that regard, information security has been a long-standing and widely acknowledged concern among federal agencies. The Federal Information Security Management Act requires each agency to develop, document, and implement an agency-wide information security program to provide adequate security for the information and information systems that support the operations and assets of the

agency. Section 522 of the Consolidated Appropriations Act of 2005 requires agencies to establish and implement comprehensive privacy and data protection procedures and have periodic third-party reviews performed of their privacy programs and practices.

Physical Resources: The FDIC employs approximately 4,800 people. It is headquartered in Washington, D.C., but conducts much of its business in six regional offices and in field offices throughout the United States. Ensuring the safety and security of the human and physical resources in those offices is a fundamental corporate responsibility that is directly tied to the Corporation's successful accomplishment of its mission. The FDIC needs to be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency.

Corporate Governance and Risk Management: The FDIC is managed by a five-person Board of Directors, all of whom are appointed by the President and confirmed by the Senate, with no more than three being from the same political party. The Board

includes the Comptroller of the Currency and the Director of the Office of Thrift Supervision. Given the relatively frequent changes in the Board make-up, it is essential that strong and sustainable governance and communication processes be in place throughout the FDIC and that Board members possess and share the information needed at all times to understand existing and emerging risks and make sound policy and management decisions.

Enterprise risk management is a key component of governance. The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Additionally, such risks need to be communicated throughout the Corporation and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved.

To promote sound governance and effective stewardship and security of human, financial, IT, and physical resources, the **OIG's 2008 performance goals** were as follows:

- Evaluate corporate efforts to manage human resources and operations efficiently, effectively, and economically.

- Promote integrity in FDIC internal operations.
- Promote alignment of IT with the FDIC's business goals and objectives.
- Promote IT security measures that ensure the confidentiality, integrity, and availability of corporate information.
- Promote personnel and physical security.
- Promote sound corporate governance and effective risk management and internal control efforts.

OIG Work in Support of Goal 5

The OIG committed a number of audit and evaluation resources to work in this strategic goal area during the reporting period. We performed an audit of the Corporation's controls over contractor payments for relocation services and another audit of controls over background checks of child care provider personnel. In the IT area, we audited the reliability of information accessed through the Virtual Supervisory Information on the Net system. One of our most comprehensive reviews was our audit of the FDIC's information security program, pursuant to the Federal Information Security Management Act of 2002. In another audit conducted during

the reporting period that fed into our FISMA work, we contracted with KPMG to audit and report on the FDIC's controls over the confidentiality of sensitive email communications. Additionally, we audited controls over contract invoice approval, payment, and posting to the general ledger. One of our evaluations addressed the energy efficiency of the FDIC's Virginia Square facility, including the Student Residence and IT Data Centers. Another evaluation this period followed up on work we conducted for the Chairman regarding IT procurement integrity and governance. Again, at her request, we explored options for adding an independent review of IT project data at key decision points in the selection and control phases of the IT governance process. Results of these reviews are discussed below. Additionally, ongoing or planned work in this area as of the end of the reporting period includes evaluations of the FDIC's Corporate Employee Program and security guard services and audits of the FDICconnect system and the Corporation's contract with Aramark.



First Board of Directors of the FDIC, sworn in at the Treasury Department, Washington, DC, on September 11, 1933.

Energy Efficiency of the FDIC's Virginia Square Facility and Information Technology Data Center

We engaged KPMG to conduct an evaluation of the Corporation's efforts to conserve energy in its operations of the Virginia Square facility, including the Student Residence Center and IT Data Center and identify opportunities to further conserve energy and/or reduce utility costs.

KPMG concluded that the FDIC has taken a number of actions to improve the energy efficiency of the Virginia Square facility and IT Data Center and identified leading practices that the FDIC has implemented that help reduce energy consumption and energy costs. KPMG identified opportunities to further improve the FDIC's energy management efforts and, in that regard, made five recommendations.

KPMG has quantified the potential cost savings associated with several specific initiatives associated with the Virginia Square facility. We expect that the FDIC can achieve and sustain far greater savings over time by implementing the initiatives at all FDIC-owned buildings and by establishing a more programmatic and corporate-wide approach to energy management, as KPMG

discusses in the report. However, implementing these initiatives will require additional investments, which we have not attempted to quantify. Consequently, we did not claim monetary benefits resulting from the recommendations.

The Division of Administration (DOA) provided us a written response to the report and concurred or partially concurred with all five recommendations.

Controls Over Contractor Payments for Relocation Services

The Corporation provides relocation services and reimbursement of expenses for FDIC employees who change their official duty station for the benefit of the FDIC. Certain retirees also receive some relocation benefits. The FDIC has contracted with the Cartus Corporation (Cartus) to provide eligible employees and retirees with relocation services. During 2006 and 2007, Cartus billed the FDIC about \$11 million for relocation expenses such as household goods moving and storage costs, lump-sum payments (such as airfare and lodging), miscellaneous expense allowances, and real estate expenses. Cartus also billed the FDIC about \$7.8 million during 2007 for advances of home equity and mortgage payoffs related to the FDIC's Home Sale Program.

One of our audits during the reporting period focused on determining whether the FDIC has sound controls in place to ensure that costs billed to the FDIC by Cartus for relocation services are allowable, allocable, and reasonable and in compliance with contract requirements. As part of the audit, we engaged the Defense Contract Audit Agency to examine selected invoices submitted by Cartus.

We found that the Corporation's Division of Finance (DOF) has implemented a number of important controls designed to ensure that payments to Cartus for relocation services are allowable, allocable, and reasonable and in compliance with contract requirements. We also found that improvements are needed in some areas to ensure sound controls over the FDIC's payments to Cartus for relocation services.

We recommended that the Director, DOF fully document the control activities associated with contractor payments of the monthly invoices for relocation expenses and the weekly invoices for the Home Sale Program and formalize the monitoring and periodic assessment of the controls over contractor payments for relocation services as part of DOF's internal control program.

DOF concurred with our recommendations and plans to take responsive actions.

Controls Over Background Checks of Child Care Provider Personnel

The FDIC's DOA entered into a Memorandum of Understanding with the Finding Dreams In Children Child Development Centers, Inc. (CDC) to provide the CDC with space and certain services for two child development centers located in the FDIC's headquarters offices. Key services provided by the FDIC under the Memorandum of Understanding include building security to help ensure a safe physical environment for the children and background checks to help ensure the suitability of child care provider personnel.

We conducted an audit to assess the FDIC's controls for performing background checks of child care provider personnel working in the FDIC's child development centers. As part of the audit, we performed limited procedures to assess building security services related to the child development centers.

We found that controls over background checks of child care provider personnel needed improvement, and we also identified building security vulnerabilities related to the child

development centers warranting management's attention. We made five recommendations to address concerns identified during the audit. The FDIC concurred with our recommendations and took prompt action in response.

Reliability of Supervisory Information Accessed Through the Virtual Supervisory Information on the Net (ViSION) System

We conducted an audit to assess the reliability of key supervisory information accessed through the ViSION system, a mission-critical FDIC system that provides access to a broad range of information related to insured financial institutions in support of the Corporation's insurance and supervision programs. The system serves approximately 3,900 FDIC and outside agency users (primarily other federal and state regulatory agencies).

Key supervisory information accessed through the ViSION system includes: (1) examination ratings used to evaluate the safety and soundness of financial institutions; (2) BSA examination information reported to the Department of the Treasury; (3) safety and soundness Reports of Examination (ROE) provided to financial institutions; and (4) ROE processing dates used to

monitor examination frequency and determine deposit insurance assessments for financial institutions. The FDIC's DSC is responsible for ensuring the reliability of supervisory information in each of these four areas.

We reviewed a sample of 75 of the 5,075 financial institutions for which the FDIC was the primary federal regulator as of April 3, 2008. For each of the 75 institutions, we verified supervisory information accessed through the ViSION system to source documentation, such as hard copy ROEs. We considered the information we assessed to be reliable if it was accurate and complete as described in the Government Accountability Office's publication *Assessing the Reliability of Computer-Processed Data*.

Supervisory information accessed through the ViSION system was not fully reliable in each of the four areas that we assessed.

Unreliable information accessed through the ViSION system can limit the efficiencies that the FDIC intended to achieve through automation such as accurate, timely, and consistent data used for off-site monitoring of financial institutions. In addition, because ROE processing dates are used in determining deposit insurance assessments, the reliability of

those dates is critical to ensuring the integrity of premiums charged to insured financial institutions.

DSC has taken steps to promote the reliability of information accessed through the ViSION system. For example, DSC periodically reviews the integrity of selected information accessible through the ViSION system as part of the division's internal reviews. DSC also identified concerns regarding the reliability of ROE information prior to our audit and was working to improve its processes and technology for collecting, processing, and storing electronic ROEs. However, DSC had not performed an assessment of supervisory information accessed through the ViSION system to determine an acceptable information accuracy rate. Establishing an information accuracy rate is important for ensuring cost-beneficial controls over the reliability of information accessed through the ViSION system.

We therefore recommended that the Director, DSC, conduct an assessment of key supervisory information accessed through the ViSION system in order to define an acceptable accuracy rate and identify respective controls and responsibilities over the reliability of supervisory information consistent with

the results of the assessment.

DSC concurred with our recommendation and has planned to take responsive actions.

Independent Evaluation of the FDIC's Information Security Program-2008

We contracted with KPMG to conduct an independent evaluation of the FDIC's information security program and practices pursuant to FISMA. FISMA requires federal agencies, including the FDIC, to have an annual independent evaluation performed of their information security program and practices and to report the results of the evaluation to the Office of Management and Budget (OMB). The objective of the evaluation was to determine the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with FISMA and related information security policies, procedures, standards, and guidelines.

In general, with respect to the IT systems and common controls reviewed, KPMG found that the related program and operational controls demonstrated effectiveness while management and technical controls warranted management attention. The FDIC continues to build upon its past success in addressing the informa-

tion security provisions of FISMA and standards and guidelines of the National Institute of Standards and Technology. Importantly, the FDIC had established policies and procedures in substantially all of the security control areas KPMG evaluated. The FDIC had also implemented a number of important security control improvements in response to KPMG's 2007 evaluation, such as enhancing its encryption capabilities and strengthening its corporate privacy program. Additional control improvements were also underway at the close of the audit.

The above accomplishments were positive. However, KPMG identified a number of information security control deficiencies warranting management attention. Of particular note, KPMG identified access control deficiencies within the FDIC's internal network that presented a high risk of unauthorized disclosure of sensitive information or compromise of IT resources. While the FDIC was taking prompt action to address these access control deficiencies, increased management attention in this area is warranted. The report identifies eight steps that the Corporation can take to improve the effectiveness of its information security program controls in the areas of Risk

Assessment; Planning; Certification, Accreditation, and Security Assessments; Media Protection; Awareness and Training; Identification and Authentication; Access Control; and Audit and Accountability. In many cases, the FDIC was already working to improve security controls in these areas during KPMG's audit.

Because this report addresses issues associated with information security, it is not publicly available.

Controls for Protecting the Confidentiality of Sensitive Email Communications

The FDIC uses email extensively, internally and externally, to exchange business information such as open bank data, contract negotiations, personnel data, and legal matters. Protecting the confidentiality of sensitive email communications requires a comprehensive set of security controls and sustained vigilance to address current and emerging security threats.

We contracted with KPMG to conduct an audit to assess the FDIC's controls for protecting the confidentiality of sensitive email communications and to identify opportunities for mitigating risk where appropriate.

KPMG found that the FDIC had a

number of key controls in place to protect the confidentiality of sensitive email communications. Such controls include, for example, a corporate policy governing the encryption of sensitive email communications; an enterprise-wide email encryption solution; background checks and confidentiality agreements for administrators supporting the email infrastructure; and a security awareness and training program addressing, among other things, the protection of sensitive email communications. The Division of Information Technology (DIT) was also working to implement a number of additional email security control improvements during the audit.

While such actions were positive, controls over administrator access to the email infrastructure needed to be strengthened. In addition, KPMG identified several potential control enhancements intended to further mitigate the risk of email exposure at the FDIC that DIT should assess for implementation. KPMG made two recommendations for improvements. The FDIC concurred with both recommendations, and its planned actions were responsive to the recommendations.

Opportunities for Independent Review of Information Technology Projects

During a previous evaluation, we reported that the FDIC has an IT governance framework and processes in place that generally align with government-wide norms. Notwithstanding that prior conclusion, at the Chairman's request, we explored and communicated back to her options for consideration that would add independent review of IT project data at key decision points in the selection and control phases of the IT governance process. We pointed out that doing so would provide the Chairman, the Board, and management with greater assurance that information presented for project status or decision-making purposes had been objectively and completely vetted.

The report we issued to her also provided perspective on the difficulties that federal agencies encounter in implementing large IT investments, other agencies' practices in this area, a brief discussion of the pros and cons of adding independent review to the current governance framework, and FDIC management's views regarding existing forms of review that management considers to be independent. Finally, the report emphasized the importance of

Chairman and Board engagement in IT issues, open and clear communication between the Chairman and Chief Information Officer, and timely and forthright discussion of IT project health.

FDIC's Controls Over Contractor Invoice Approval, Payment, and Posting to the General Ledger

Of the FDIC's \$992 million in calendar-year 2007 operating expenses, over \$250 million represents amounts paid for contracted goods and services. Through June 2008, \$121 million of \$495 million in operating expenses was for contractor payments, part of which was paid based on contractor invoices.

We conducted an audit to assess the FDIC's controls over contractor invoice approval, payment, and posting to the General Ledger. Our review included a sample of 30 of 1,148 FDIC invoices, representing \$5.7 million in contractor invoice payments that totaled \$37.5 million during the period October 2007 through March 2008.

The FDIC has established and implemented generally adequate controls over contractor invoice approval, payment, and posting to the general ledger. The New Financial Environment provides an audit trail from the authorized invoice approval through

posting of the payment transactions. Additionally, the FDIC has enhanced its Contract Oversight Management Program to ensure that oversight managers receive and complete training regarding their roles in independently reviewing and approving contractor invoices for payment.

Based on our review of the 30 sampled contractor invoices, representing total FDIC expenditures of \$5.7 million, we found that additional control activities could improve the oversight manager's review and approval procedures. Thus, to better ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with FDIC policies and procedures, we recommended that DOF and DOA ensure the segregation of duties for invoice preparation and approval. We also recommended DOA ensure that the OMs receive confirmation letters; complete required training; and maintain current, accurate, and complete documentation in the Corporation's official system of records for contract activities.

DOA and DOF concurred with our recommendations and planned to take responsive actions.

6

STRATEGIC GOAL 6: OIG INTERNAL PROCESSES: BUILD AND SUSTAIN A HIGH-QUALITY STAFF, EFFECTIVE OPERATIONS, OIG INDEPENDENCE, AND MUTUALLY BENEFICIAL WORKING RELATIONSHIPS

While the OIG's audit, evaluation, and investigation work is focused principally on the FDIC's programs and operations, we have an obligation to hold ourselves to the highest standards of performance and conduct. We seek to develop and retain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships with all stakeholders.

To ensure a high-quality staff, we must continuously invest in keeping staff knowledge and skills at a level equal to the work that needs to be done, and we emphasize and support training and development opportunities for all OIG staff. We also strive to keep communication channels open throughout the office. We are mindful of ensuring effective and efficient use of human, financial, IT, and procurement resources in conducting OIG audits, evaluations, investigations, and other support activities, and have a disciplined budget process to see to that end.

To carry out our responsibilities, the OIG must be professional, independent, objective, fact-based, nonpartisan, fair, and balanced in all its work. Also, the IG and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their

independence. The OIG adheres to the Quality Standards for Federal Offices of Inspector General, issued by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), soon to be combined in a single Council. Further, the OIG conducts its audit work in accordance with generally accepted Government Auditing Standards; its evaluations in accordance with PCIE Quality Standards for Inspections; and its investigations, which often involve allegations of serious wrongdoing that may involve potential violations of criminal law, in accordance with Quality Standards for Investigations established by the PCIE and ECIE, and procedures established by the Department of Justice.

Strong working relationships are fundamental to our success. We place a high priority on maintaining positive working relationships with the FDIC Chairman, Vice Chairman, other FDIC Board members, and management officials. The OIG is a regular participant at Audit Committee meetings where recently issued audit and evaluation reports are discussed. Other meetings occur throughout the year as OIG officials meet with division and office leaders and attend and participate in internal FDIC conferences and other forums.

The OIG also places a high priority on maintaining positive relationships with the Congress and providing timely, complete, and high quality responses to congressional inquiries. In most instances, this communication would include semiannual reports to the Congress, issued audit and evaluation reports, information related to completed investigations, comments on legislation and regulations, written statements for congressional hearings, contacts with congressional staff, responses to congressional correspondence, and materials related to OIG appropriations.

The Inspectors General appointed by the President and confirmed by the Senate are members of the PCIE. We have fully supported and participated in PCIE activities and coordinate closely with representatives from the other the financial regulatory OIGs. Additionally, the OIG meets with representatives of the U.S. Government Accountability Office to coordinate work and minimize duplication of effort and with representatives of the Department of Justice, including the FBI and U.S. Attorneys' Offices, to coordinate our criminal investigative work and pursue matters of mutual interest.

The FDIC OIG has its own strategic and annual planning processes

independent of the Corporation's planning process, in keeping with the independent nature of the OIG's core mission. The Government Performance and Results Act of 1993 (GPRA) was enacted to improve the management, effectiveness, and accountability of federal programs. GPRA requires most federal agencies, including the FDIC, to develop a strategic plan that broadly defines the agency's mission and vision, an annual performance plan that translates the vision and goals of the strategic plan into measurable objectives, and an annual performance report that compares actual results against planned goals.

The OIG strongly supports GPRA and is fully committed to applying its principles of strategic planning and performance measurement and reporting to our operations. The OIG's Business Plan lays the basic foundation for establishing goals, measuring performance, and reporting accomplishments consistent with the principles and concepts of GPRA. We are continuously seeking to better integrate risk management considerations in all aspects of OIG planning—both with respect to external and internal work.

To build and sustain a high-quality staff, effective operations, OIG independence, and mutually

beneficial working relationships, the OIG's **2008 performance goals** were as follows:

- Effectively and efficiently manage OIG human, financial, IT, and physical resources
- Ensure quality and efficiency of OIG audits, evaluations, investigations, and other projects and operations
- Encourage individual growth and strengthen human capital management and leadership through professional development and training
- Foster good client, stakeholder, and staff relationships
- Enhance OIG risk management activities

A brief listing of OIG activities in support of these performance goals follows.



Summer intern Alan Kolick, College of William & Mary



Summer intern Donzell Tate, McDaniel College



Wade Walters, Social Security Administration Senior Executive Service candidate

Effectively and Efficiently Manage OIG Human, Financial, IT, and Physical Resources	
1	Developed OIG staffing plan and related priorities in the interest of succession planning and to ensure that OIG staff is sufficient to address work challenges ahead.
2	Continued realignment of the OIG investigative resources with FDIC regions, by reassigning OI staff, and advertising and filling vacancies.
3	Prepared informational materials outlining needed financial resources for presentation to the FDIC Chairman, OMB, and the House and Senate Appropriations Subcommittees in support of the OIG's FY 2009 and 2010 budget requests.
4	Carried out an initiative to train all OIG employees and contractors on the use of various encryption tools.
5	Increased OIG security awareness by creating links from the OIG's internal Web site to the FDIC information security program and encryption guidance Web sites.
6	Continued a project to upgrade STAR—the OIG's audit and evaluation tracking system—and an associated review of how we are using TeamMate as we conduct audits and evaluations in the interest of leveraging that technology and ensuring efficiency in our work.
7	Explored opportunities to leverage the resources of OI's ECU and Office of Audit's computer lab, staffs, equipment, and IT staff in the Office of Management.
8	Continued to partner with DIT to ensure the security of OIG information in the FDIC computer network infrastructure.

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations	
1	Implemented new OA policies and procedures, including a revised assignment management process to better ensure efficiency, effectiveness, and quality of efforts.
2	Continued to use a contract awarded to a qualified firm to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise as we conduct audits and evaluations and closely monitored contractor performance.
3	Continued to maintain and update the OIG's Dashboard—a project management monitoring, tracking, and reporting tool for OIG projects.
4	Took steps to better monitor costs associated with audits and evaluations in the interest of economy and efficiency. Reduced average time and cost of audit and evaluation assignments.
5	Continued use of the OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audit and evaluation assignments and incorporated suggested improvements to the form.
6	Implemented a new IG Feedback form for audit and evaluation assignments that focuses on overall assignment quality elements, including time, cost, and value.
7	Updated and revised Office of Evaluations policies and procedures to establish guidance for conducting work in accordance with inspection standards promulgated by the PCIE.
8	Conducted quality control reviews of the OIG's investigative operations in the Midwest region, and of OA's coverage of laws and regulations in performance audits.
9	Conducted a peer review of the investigative operations of the Environmental Protection Agency OIG, as required by the PCIE.

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training	
1	Implemented revised OIG Career Development Plan forms, making them more aligned with OIG strategic goals and the training, skills, and experience needed to better achieve those goals. Also integrated OIG training plans into the forms.
2	Expanded use of forensic accountant positions—to allow OIG staff with accounting skills to assist OIG investigators in conducting investigations of mortgage fraud and other financial institution fraud cases.
3	Continued to support members of the OIG attending long-term graduate banking school programs sponsored by Stonier, the Southeastern School of Banking at Vanderbilt University, and the University of Wisconsin to enhance OIG staff expertise and knowledge of the banking industry.
4	Planned for a material loss review training program to better equip OIG staff with skills and expertise needed to meet demands of increased material loss review workload.
5	Participated in FBI-sponsored training in mortgage fraud to help ensure that OIG investigators and others involved have the requisite knowledge to investigate the growing number of mortgage fraud schemes perpetrated throughout the country.
6	Hosted two summer interns in our Offices of Audits and Investigations. Also hosted a candidate for the Social Security Administration's Senior Executive Service Candidate Development Program.

Foster Good Client, Stakeholder, and Staff Relationships	
1	Maintained Congressional working relationships by providing our Semiannual Report to the Congress for the 6 month period ending March 31, 2008; communicating with and providing requested materials to the cognizant Subcommittees of the Senate and House Committees on Appropriations regarding our FY 2009 budget; notifying interested congressional parties regarding the OIG's completed audit and evaluation work; attending or monitoring FDIC-related hearings on issues of concern to various oversight committees; coordinating with the Corporation's Office of Legislative Affairs on issues of mutual interest; and providing input to staff on the House Financial Services and Senate Banking Committees regarding oversight issues in the Emergency Economic Stabilization Act of 2008.
2	Communicated with the FDIC Chairman, Vice Chairman, Director Curry, and other senior FDIC officials through the IG's regularly scheduled meetings with them and through other forums.
3	Participated in DSC regional meetings to provide general information regarding the OIG and OI case studies on bank frauds that are of importance to DSC and the banking industry.
4	Held quarterly meetings with FDIC Directors and other senior officials to keep them apprised of ongoing audit and evaluation reviews and results.
5	Kept DSC, DRR, the Legal Division, and other FDIC program offices informed of the status and results of our investigative work impacting their respective offices. This was accomplished by notifying FDIC program offices of recent actions in OIG cases and providing OI's quarterly reports to DSC, DRR, the Legal Division, and the Chairman's Office outlining activity and results in our cases involving closed and open banks, asset and restitution cases.
6	Participated at FDIC Audit Committee meetings to present the results of significant completed audits and evaluations for consideration by Committee members.
7	Reviewed 10 draft corporate policies on a range of topics. Among the policies we reviewed were those related to the following: <i>Enterprise Data Management Program</i> , <i>IT Contingency Planning</i> , <i>Acquisition Policy Manual</i> , and <i>Standards of Ethical Conduct</i> .

8	Supported the IG community by having the IG serve as Chair of the PCIE Audit Committee and coordinating the activities of that group; attending monthly PCIE meetings and participating in Inspection & Evaluation Committee and Council of Counsels to the IGs meetings; loaning staff to the Department of the Treasury OIG for material loss review work; providing investigative and counsel resource assistance to the Federal Housing Finance Board; and providing support to the IG community's investigative meetings and training activities.
9	Met regularly with representatives of the OIGs of the federal banking regulators (Board of Governors of the Federal Reserve System, Department of the Treasury, National Credit Union Administration, Securities and Exchange Commission, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Board, and EX-IM Bank) to discuss audit and investigative matters of mutual interest.
10	Continued to hold quarterly meetings of the OIG's Employee Advisory Group to provide the elected staff an opportunity to meet with the IG to discuss issues of OIG-wide interest or concern.
11	Continued to post and/or update information on the FDIC OIG Internet (www.fdicig.gov) and Intranet sites to ensure transparency and stakeholder accessibility to OIG products, including Semiannual Reports to the Congress, audit and evaluation reports, and investigation-related press releases.

Enhance OIG Risk Management Activities

1	Continued efforts to carry out and monitor the OIG's FY 2008 business planning process, including holding meetings to assess progress and begin planning for FY 2009. Held a series of internal OIG meetings to identify significant activities and risks within the Corporation and the financial services industry.
2	Participated regularly at corporate meetings of the National Risk Committee and kept current with the FDIC's Risk Analysis Center presentations to monitor emerging risks at the Corporation and tailor OIG work accordingly.
3	Conducted activities in support of the OIG's 2008 assurance statement to the Chairman under which the OIG provides assurance that our office has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, OMB A-123, and other key legislation.
4	Identified key hard copy and electronic records that the OIG should maintain in a secure off-site location to ensure continuity of operations in the event of an emergency and conveyed those to the site.
5	Revised OIG Business Continuity Plan to reflect steps for restoring critical OIG business processes.
6	Issued updated guidance related to the OIG's readiness to respond in an office emergency situation.

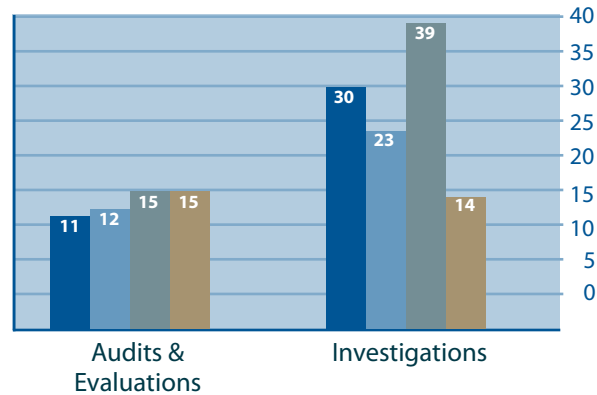
CUMULATIVE RESULTS (2-YEAR PERIOD)

Nonmonetary Recommendations	
October 2006 - March 2007	35
April 2007 - September 2007	7
October 2007 - March 2008	52
April 2008 - September 2008	24

LEGEND

- 10/06 - 3/07
- 4/07 - 9/07
- 10/07 - 3/08
- 4/08 - 9/08

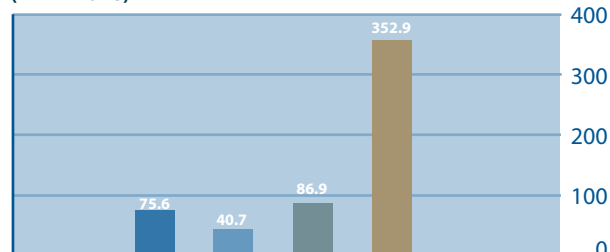
Products Issued and Investigations Closed



Fines, Restitution, and Monetary Recoveries Resulting from OIG Investigations (in millions)

LEGEND

- 10/06 - 3/07
- 4/07 - 9/07
- 10/07 - 3/08
- 4/08 - 9/08



FISCAL YEAR 2008 PERFORMANCE REPORT

This performance report presents an overview of our performance compared to the fiscal year (FY) 2008 annual performance goals in our Business Plan. It provides a statistical summary of our qualitative goals as well as a narrative summary of performance results by Strategic Goal. It also shows our results in meeting a set of quantitative goals that we established for the year. Our complete 2008 Business Plan is available at www.fdicig.gov.

We formulated six strategic goals, as shown in the table below. Each of our strategic goals, which are long-term efforts, has annual performance goals and key efforts that represent our initiatives in FY 2008 toward accomplishing the strategic goal. The table reflects the number of performance goals that were Met, Substantially Met, or Not Met. This determination was made through ongoing discussions at the OIG Executive level and a qualitative assessment as to the impact and value of the audit, evaluation, investigation, and other work of the OIG supporting these goals throughout the year.

As shown in the table, we met or substantially met all of our performance goals in FY 2008. A discussion of our success in each of the goals follows the table.

Fiscal Year 2008 Annual Performance Goal Accomplishment (Number of Goals)

Strategic Goals	Performance Goals			
	Met	Substantially Met	Not Met	Total
Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly	1	1		2
Insurance: Help the FDIC Maintain the Viability of the Insurance Fund	1	1		2
Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy	1	1		2
Receivership Management: Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships	1	1		2
FDIC Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources	2	4		6
OIG Internal Processes: Build and Sustain a High-Quality OIG Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships	3	2		5
Total	9	10		19
Percentage	47	53		100

Strategic Goal 1 - Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

Our work in helping to ensure that the nation's banks operate safely and soundly took the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. During the past FY, we issued a report on the implementation of the FDIC's supervisory guidance for nontraditional mortgage products, focusing on the FDIC's response to worsening conditions in the mortgage industry and looking at the relatively small number of FDIC-supervised institutions with significant involvement in such products. We also completed audits of the FDIC's consideration of commercial real-estate concentration risk in FDIC-supervised institutions, the FDIC's examination assessment of interest rate risk and liquidity risk, and its controls over the CAMELS rating review process. Another of our audits reviewed the FDIC's implementation of the USA PATRIOT Act, noting that comprehensive examination procedures are in place to evaluate institution compliance with the anti-money laundering and terrorist financing provisions of the Act.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we achieved successful results in combating a number of mortgage fraud schemes. In total, during the past performance year, we reported 123 indictments/informations; 103 convictions; and fines, restitution, and monetary recoveries of \$440 million. Noteworthy results include the stiff sentencing of multiple subjects for mortgage fraud. To illustrate, a Dallas businessman was sentenced to 262 months of incarceration and ordered to pay restitution of \$2 million. In another case, an Illinois businessman and his associate were sentenced to 235 months and 97 months, respectively, for their role in an \$8 million real estate land flip scheme. Another purported real estate investor was sentenced to 11 years in prison and ordered to pay \$1.4 million to victim banks and mortgage lenders. In another case involving bank fraud, the former president and chief executive officer of Farmers Deposit Bank, Eminence, Kentucky, was sentenced to 36 months of incarceration and ordered to pay restitution of more than \$13 million to the bank. Another of our investigations led to the sentencing of the former president and loan officer of the Bank of Paxton to 60 months of incarceration, and he was similarly ordered to pay restitution of \$4.9 million to the bank. A former loan customer, who was also a principal figure in the music industry, was sentenced to 25 years in prison, to be followed by 3 years of probation for his role in a massive bank fraud involving 10 financial institutions. He was ordered to pay a total of more than \$310 million in restitution.

The Office of Investigations also continued its close coordination and outreach with the Division of Supervision and Consumer Protection (DSC), the Division of Resolutions and Receiverships, and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with DSC and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest.

Strategic Goal 2 - Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

We conducted audit work related to the FDIC's receipt and assessment of savings association subsidiary notices, at the request of staff from the U.S. Senate Committee on Banking, Housing and Urban Affairs. We reported that the FDIC had developed an adequate control process for reviewing the subsidiary notices that it received from institutions. At the end of the reporting period, ongoing work in this goal area included an audit of the Corporation's off-site monitoring activities for insurance risk and an audit of the FDIC's investment management practices related to the Deposit Insurance Fund, the results of which will be included in an upcoming semiannual report. The OIG's ongoing work in conducting material loss reviews of failed institutions (of which four were on-going as of the end of the reporting period) also serves to help maintain the viability of the fund, as we seek to determine the causes of failure and make recommendations to prevent future losses.

Similarly, OIG investigations have supported this goal in that investigations often lead to successful prosecutions of fraud in financial institutions and/or fraud that can cause losses to the fund.

Strategic Goal 3 - Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Audits and investigations contributed to the FDIC's protection of consumers in several ways. We completed our audit of examination procedures for assessing controls to protect customer and consumer information at multi-regional data processing servicers. In that report we made recommendations to better ensure examination procedures at technology service providers are commensurate with the risk of unauthorized access to customer and consumer information and applied consistently across FDIC regions. At the end of the reporting period, we had several assignments ongoing or planned in support of this goal, including an audit of consumer credit underwriting practices in community banks. At the Chairman's request, our evaluations group is also conducting work in the area of enforcement actions for compliance violations.

From an investigative standpoint, as a result of an ongoing investigation, two securities sales representatives pleaded guilty to a fraud scheme where they misled elderly investors into believing that their funds were invested in FDIC-insured certificates of deposit when, in fact, they were not. Additionally, the former owner of the securities firm pleaded guilty to securities fraud for his role in the marketing scheme. The OIG's Electronic Crimes Unit (ECU) was also successful in working to deactivate a total of 51 fraudulent email accounts involving false claims of FDIC insurance or affiliation. The ECU responded to Internet-based schemes where the FDIC and OIG Web sites were misused to entice consumers to divulge personal information and successfully shut down two Web sites used for such purposes.

Strategic Goal 4 - Receivership Management: Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships

At FDIC management's request, we completed an evaluation assignment related to the FDIC's Claims Administration System, a development effort to automate the handling of deposit insurance determination functions and the processing and payment of claims associated with failed financial institutions. We made four suggestions to management as a result. We also conducted an evaluation of the Corporation's contingency planning for large-scale resolution activity, and communicated our observations to FDIC senior management officials. We continued to monitor the FDIC's Strategic Readiness Project. With the failure of IndyMac in July 2008, we also performed a high-level controls review of the IndyMac conservatorship. Other work in support of the goal included an audit of internal control in the FDIC's receivership accounting process and an audit of protection of resolution and receivership data managed or maintained by FDIC contractors.

We continued to pursue concealment of assets investigations related to the more than \$1.7 billion in criminal restitution that the FDIC is owed. In connection with one such investigation, during the performance reporting period, a debtor who had previously claimed he could not pay was ordered to make a restitution payment of more than \$400,000 to the FDIC.

Strategic Goal 5 - Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

The OIG devoted substantial resources to this goal area during the FY, resulting in a variety of issues addressed. Of note with respect to this strategic goal, we issued the results of our review of the Corporation's enterprise risk management program, making seven recommendations and two suggestions for enhancements. At the Chairman's request, we also assessed the integrity of the FDIC's information technology (IT) procurement activity and the FDIC's governance framework related to the selection, management, and evaluation of IT projects and made recommendations for enhancements in both areas. We later conducted follow-on work on options for independent review of IT project data at key decision points in the selection and control phases of the IT governance process. We performed a related audit to assess the FDIC's contract oversight management of its \$357 million IT infrastructure services contract and support for payments made by the FDIC under the contract, making recommendations in that report to strengthen governance and promote transparency and communication throughout the infrastructure services contract program.

We issued several other audit and evaluation reports in this goal area and made suggestions to improve the quality and reliability of the Corporation's telework participation data and further enhance security of data used when teleworking; strengthen controls over the headquarters and Dallas transit subsidy programs; enhance features of the Corporation's IT disaster recovery program and related security controls; enhance controls for the continuous replacement and disposal

process for laptop computers; and implement steps to improve the FDIC's energy management practices. We performed an audit of the Corporation's controls over contractor payments for relocation services and another audit of controls over background checks of child care provider personnel. In the IT area, we also audited the reliability of information accessed through the Virtual Supervisory Information on the Net system. We engaged KPMG, LLP to audit the FDIC's information security program, pursuant to the Federal Information Security Management Act of 2002 (FISMA). In another audit that fed into our FISMA work, KPMG audited the FDIC's controls over the confidentiality of sensitive email communications and made recommendations to strengthen those controls. Additionally, we audited controls over contract invoice approval, payment, and posting to the general ledger.

We also promoted integrity in FDIC internal operations through ongoing OIG Hotline referrals and coordination with FDIC management.

Strategic Goal 6 - OIG Internal Processes: Build and Sustain a High-Quality OIG Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

To ensure effective and efficient management of OIG resources, among other activities, we continued realignment of the OIG investigative resources with FDIC regions, by reassigning Office of Investigations staff, advertising, and filling vacancies. We also conducted Virtual Workforce training for all OIG staff to foster an office-wide understanding of issues related to implementing and carrying out a successful telework program. Further, we conducted a project to upgrade the OIG's audit and evaluation tracking system and undertook an associated review of how we are using TeamMate as we conduct audits and evaluations to better leverage that technology and ensure efficiency in our work.

In the interest of ensuring quality and efficiency in our work and operations, we revised the Office of Audits Policy and Procedures Manual to address changes in the performance audit standards and process changes deemed advisable as a result of an internal assignment management review and external peer review results. We also awarded a contract to a qualified firm to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We took steps to better track and contain costs associated with audits and evaluations in the interest of economy and efficiency. We continued use of the OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audit and evaluation assignments and incorporated suggested improvements to the form. We also implemented a new IG feedback form for audit and evaluation assignments that focuses on overall assignment quality elements, including time, cost, and value. With respect to our investigative operations, we conducted quality control reviews of the OIG's Hotline program, headquarters offices, and the Southwest and Midwest regions.

We encouraged individual growth through professional development by way of initiatives such as revising career development plans to better align them with OIG goals and integrating training plans for OIG staff in the career development plans, continuing the OIG mentoring program, advertising multiple expressions of interest for forensic accountants to assist investigators in conducting financial institution fraud cases, offering opportunities for OIG staff to attend graduate schools of banking, and sponsoring two interns and a senior executive service candidate from another federal agency.

Our office continued to foster positive stakeholder relationships by way of IG and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; coordination with financial regulatory OIGs, other members of the IG community, other law enforcement officials, and the U.S. Government Accountability Office (GAO). The IG assumed the role of Chair of the Audit Committee of the President's Council on Integrity and Efficiency, and in that capacity is a leader in the federal audit community. Members of the OIG Employee Advisory Group held quarterly meetings with the IG, the OIG participated in corporate diversity events, and we maintained and updated the OIG Web site to provide easily accessible information to stakeholders interested in our office and the results of our work.

In the area of enhancing OIG risk management activities, we continued efforts to carry out and monitor the OIG's FY 2008 business planning process, including holding meetings to assess progress, and planned for FY 2009, including meeting internally and externally to discuss significant activities and risks within the Corporation and the financial services industry, with particular attention to the unparalleled events in the economy and financial services sector over the past several months. We also participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly. In accordance with the Reports Consolidation Act of 2000, we assessed the most significant management and performance challenges facing the FDIC, and provided this assessment to FDIC management for inclusion in the Corporation's performance and accountability report. We submitted the OIG's 2007 Assurance Statement to the FDIC Chairman, in accordance with the annual requirement under which the OIG provides assurance that the OIG has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, OMB A-123, and other key legislation. We also prepared for our 2008 statement. At GAO's request, we provided the OIG's perspectives related to internal fraud risk at the FDIC in connection with GAO's responsibility under Statement of Auditing Standards No. 99, Consideration of Fraud in Financial Statement Audits.

From an internal OIG perspective, we focused much attention on emergency preparedness, contingency planning, and continuity of operations to ensure OIG employee safety and to mitigate risks posed by any threats to our people and our mission.

Quantitative Performance Measures 2008

Performance Measure	FY 2008 Target	FY 2008 Actual	Status
Financial Benefit Return ^a	100%	2078%	Met
Other Benefits ^b	100%	100%	Met
Past Recommendations Implemented ^c	95%	99%	Met
Audit Reports Issued	20	20	Met
Evaluation Reports Issued	10	10	Met
Audit Assignments Completed Within 30 days of Established Final Report Milestone	90%	94%	Met
Evaluation Assignments Completed Within 30 days of Established Final Report Milestone	90%	70%	Not Met
Audit Assignments Completed Within 15 Percent of Established Budget	90%	88%	Substantially Met
Evaluation Assignments Completed Within 15 Percent of Established Budget	90%	80%	Substantially Met
Investigation Actions ^d	120	409	Met
Closed Investigations Resulting in Reports to Management, Convictions, Civil Actions, or Administrative Actions	80%	85%	Met
Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements	70%	67%	Substantially Met
Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case	85%	93%	Met
Closing Reports Issued to Management within 30 days of Completion of all Judicial Actions	100%	100%	Met

^a Includes all financial benefits, including audit-related questioned costs; recommendations for better use of funds; and investigative fines, restitution, settlements, and other monetary recoveries divided by OIG's total fiscal year budget obligations.

^b Benefits to the FDIC that cannot be estimated in dollar terms which result in improved services; statutes, regulations, or policies; or business operations and occurring as a result of work that the OIG has completed over the past several years. Includes outcomes from implementation of OIG audit/evaluation recommendations.

^c Fiscal year 2006 recommendations implemented by fiscal year-end 2008.

^d Indictments, convictions, informations, arrests, pre-trial diversions, criminal non-monetary sentencings, monetary actions, employee actions, and other administrative actions.

REPORTING REQUIREMENTS

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INFORMATION REQUIRED BY THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED

Review of Legislation and Regulations

It is the responsibility of the OIG Office of Counsel to review, pursuant to Section 5(a) of the Inspector General Act, pending and enacted legislation and regulations relating to programs and operations of the FDIC. In this regard, Counsel's Office has been following the status of various bills relating to the changing landscape of the financial industry as well as legislation pertaining to the Inspector General community at large. Our review of the Emergency Economic Stabilization Act of 2008; the Housing Reform Act legislation; H.R. 6639, the Federal Agency Performance Review and Efficiency Act; and H.R. 928, the Inspector General Reform Act, has continued throughout the semi-annual period. In conjunction with the PCIE, Counsel's Office monitored S.789 and H.R. 1395, the Government Credit Card Abuse Prevention Act of 2008, and S. 3474, the FISMA Act of 2008, and coordinated comments with other Inspector General offices. Additionally, Counsel's Office developed, and submitted to Congress, statutory language that ultimately became Section 126 of the Emergency Economic Stabilization Act, prohibiting misuse of the FDIC name or symbol or misrepresentation as to FDIC-insured status.

Table I. Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

This table shows the corrective actions management has agreed to implement but has not completed, along with associated monetary amounts. In some cases, these corrective actions are different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on (1) information supplied by FDIC's Office of Enterprise Risk Management (OERM) and (2) the OIG's determination of closed recommendations for reports issued after March 31, 2002. These two recommendations from two reports involve improvements in operations and programs. OERM has categorized the status of these recommendations as follows: Management Action in Process.

Table I (continued): Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

Report Number, Title & Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
06-025 Controls for Monitoring Access to Sensitive Information Processed by FDIC Applications September 29, 2006	3 [♦]	Develop a written plan that defines a risk-based, enterprise-wide approach to audit logging and monitoring for the FDIC's portfolio of information systems.
AUD-08-003 FDIC's Implementation of the USA PATRIOT Act November 30, 2007	1 [▪]	Clarify guidance to examiners on the identification and reporting of apparent customer identification program (CIP) violations, including the consideration of supplemental procedures and forms and whether transaction testing is a necessary basis for citing apparent CIP deficiencies.

♦ The OIG has received some information but has requested additional information to evaluate management's actions in response to the recommendation.

▪ The OIG is reviewing management's actions in response to the recommendation.

Table II: Audit Reports Issued by Subject Area

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
AUD-08-011 July 7, 2008	DSC's Examination Assessment of Interest Rate Risk			
AUD-08-012 July 30, 2008	FDIC's Examination of Liquidity Risk			
AUD-08-014 August 12, 2008	FDIC's Controls Over the CAMELS Rating Review Process			
Receivership Management				
AUD-08-015 September 2, 2008	Protection of Resolution and Receivership Data Managed or Maintained by an FDIC Contractor			
AUD-08-018 September 23, 2008	FDIC's Receivership Service Billing Process			
Resources Management				
AUD-08-010 July 2, 2008	Controls Over Background Checks of Child Care Provider Personnel			
AUD-08-013 August 12, 2008	Controls for Protecting the Confidentiality of Sensitive Email Communications			
AUD-08-016 September 17, 2008	Controls Over Contractor Payments for Relocation Services			
AUD-08-017 September 22, 2008	FDIC's Controls Over Contractor Invoice Approval, Payment, and Posting to the General Ledger			
AUD-08-019 September 25, 2008	Reliability of Supervisory Information Accessed Through the Virtual Supervisory Information on the Net (ViSION) System			
AUD-08-020 September 26, 2008	Independent Evaluation of the FDIC's Information Security Program - 2008			
Totals for the Period		\$0	\$0	\$0

Table III: Evaluation Reports and Memoranda Issued

Evaluation Reports and Memoranda		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
EVAL-08-005 September 24, 2008	Energy Efficiency of the FDIC's Virginia Square Facility and Information Technology Data Center			
EM-08-003 June 18, 2008	Opportunities for Independent Review of Information Technology Projects			
EM-08-004 August 1, 2008	Contingency Planning for Large-Scale Resolution Activity			
N/A September 23, 2008	Memorandum: High-Level Controls Review at IndyMac Federal Bank, FSB Conservatorship			
Totals for the Period		\$0	\$0	\$0

Table IV: Audit Reports Issued with Questioned Costs

	Number	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period.	0	0	0
B. Which were issued during the reporting period.	0	0	0
Subtotals of A & B	0	0	0
C. For which a management decision was made during the reporting period.	0	0	0
(i) dollar value of disallowed costs.	0	0	0
(ii) dollar value of costs not disallowed.	0	0	0
D. For which no management decision has been made by the end of the reporting period.	0	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0	0

Table V: Audit Reports Issued with Recommendations for Better Use of Funds

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	0
B. Which were issued during the reporting period.	0	0
Subtotals of A & B	0	0
C. For which a management decision was made during the reporting period.	0	0
(i) dollar value of recommendations that were agreed to by management.	0	0
- based on proposed management action.	0	0
- based on proposed legislative action.	0	0
(ii) dollar value of recommendations that were not agreed to by management.	0	0
D. For which no management decision has been made by the end of the reporting period.	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0

Table VI: Status of OIG Recommendations Without Management Decisions

During this reporting period, there were no recommendations more than 6 months old without management decisions.

Table VII: Significant Revised Management Decisions

During this reporting period, there were no significant revised management decisions.

Table VIII: Significant Management Decisions with Which the OIG Disagreed

During this reporting period, there were no significant management decisions with which the OIG disagreed.

Table IX: Instances Where Information Was Refused

During this reporting period, there were no instances where information was refused.

CONGRATULATIONS AND FAREWELL



President's Council on Integrity and Efficiency Awards

Three OIG teams, representing the Office of Audits, Office of Investigations, and Office of Evaluations, received PCIE Awards for Excellence at the PCIE Annual Awards Ceremony on October 21, 2008.

Award for Excellence: Audit

In recognition of excellence in auditing the FDIC's controls over a \$357 million infrastructure services contract

Duane H. Rosenberg, Senior Audit Specialist

Jill Benham, Auditor

Judith H. Hoyle, Information Technology Auditor-in-Charge

Lien K. Nguyen, Information Technology Specialist

Mark F. Mulholland, Deputy AIG for Audits

Rhoda L. Allen, Audit Specialist

Rhonda Bunte, Audit Specialist



Mark Mulholland, Duane Rosenberg, Rhoda Allen, Rhonda Bunte, IG Jon Rymer, Judith Hoyle, Lien Nguyen, Rus Rau (not pictured, Jill Benham)

The audit team employed a number of innovative audit techniques to identify key areas of risk in an interagency IT infrastructure services contract, defined and assessed the contract's governance structure and key controls, engaged other Federal auditors to examine selected invoices submitted by the main contractor and two of its subcontractors that significantly enhanced audit efficiency, and employed a very effective reporting format for presentation to the FDIC's Chairman, Audit Committee, and Chief Information Officer.

Award for Excellence: Investigation

In recognition of outstanding efforts in the investigation of the failure of the Oakwood Deposit Bank Company, Oakwood, Ohio

Brian D. Fearn, Special Agent, IRS CID, Cleveland Field Office

Jason E. Tarnowski, Chief Enforcement Examiner, Federal Reserve Bank, Cleveland

Jeffrey M. Paul, Special Agent, IRS CID, Cleveland Field Office

Jennifer R. Taylor, U.S. Department of Justice Trial Attorney, Criminal Division, Washington, D.C.

John T. Crawford, Special Agent, FDIC OIG Investigations--Eastern Region

Thomas J. Bailey, Special Agent, FBI, Cleveland Division

Thomas A. Karol, Assistant United States Attorney, Northern District of Ohio, Western Division

William E. Day, III, Assistant United States Attorney, District of South Carolina, Florence Division

This investigation involved the coordination of multiple federal agencies investigating three related multi-million dollar frauds with plea and trial prosecutions of five subjects in the Northern District of Ohio and the District of South Carolina. Ultimately the five subjects were sentenced to a total of over 40 years in prison and ordered restitution in the amount of over \$106 million. The group's relentless dedication and teamwork in pursuing this matter resulted in bringing justice to those responsible for the failure of Oakwood Deposit Bank Company, a 99-year-old bank, and added strength to the nation's banking system through the improvement of the examination process.



Matt Alessandrino, John Crawford, IG Jon Rymer, and Jason Tarnowski



Edward M. Gentry, Robert L. Wellons, IG Jon Rymer, Steve Beard, and Margaret Wolf

Award for Excellence: Evaluation

In recognition of excellence in evaluating a critical FDIC insurance determination system

Edward M. Gentry, Deputy AIG for Evaluations

Margaret B. Wolf, Auditor-in-Charge, Office of Evaluations

Robert L. Wellons, Audit Specialist, Office of Audits

The team's work had a strong and immediate impact on the Claims Administration System project's development. In response to the team's report, the FDIC made changes to the leadership and composition of the project team, refocused the project on critical functionality needed for insurance determinations, and re-evaluated an in-house model under consideration. As a result of these corrective actions, the FDIC has put in place a contingency model and processes that will enable the Corporation to accomplish large or multiple bank insurance determinations that otherwise may not have been possible. This capability, established in large part because of the excellent work done by the evaluation team, is crucial in light of the turmoil in the current economic environment and the volatile state of the banking industry.

Retirements

The OIG congratulates two former members of the office who retired after distinguished federal careers.

Sara Gibson retired after nearly 30 years of federal service. Her career began in 1977 at the Department of the Treasury, where she held temporary student appointments with the Bureau of the Mint, served in various administrative positions at the Office of the Comptroller of the Currency, and later became an inspector in the Department of the Treasury's OIG. She then spent nearly 4 years at the General Accounting Office (now the Government Accountability Office) as a criminal investigator and transferred to the Resolution Trust Corporation (RTC) in September 1990 as a senior criminal investigator. At the RTC's sunset, Sara was reassigned to the FDIC OIG as a senior criminal investigator. She later served as the FDIC's Deputy Assistant Inspector General for Investigations and was Assistant Inspector General for Investigations at the time of her retirement.



Sara was instrumental in building and cultivating positive and constructive working relationships with FDIC senior management, her FDIC OIG colleagues, others in the IG community, and fellow law enforcement professionals. Largely as a result of Sara's tireless efforts and outstanding leadership, the FDIC OIG is now a preeminent law enforcement organization and a leader in combating financial institution fraud and other criminal activity.

Theresa Fewell retired after more than 25 years of federal service. She began her career at the Department of Agriculture OIG in 1983 and moved on to the FDIC OIG in May 1990, where she served in Counsel's Office for 18 years until her retirement. Theresa provided invaluable administrative support to FDIC OIG Counsel throughout her tenure. She was instrumental in maintaining Counsel's records, establishing Counsel's subpoena system, and developing its Workflow system. She also served as timekeeper for a number of component offices in the OIG. When the IG or Deputy IG needed additional administrative support, Theresa stepped up to help. She also coordinated with individuals throughout the Corporation on behalf of the OIG on countless administrative matters and willingly volunteered to assist with office projects and activities such as the semi-annual report distribution, diversity events, the Combined Federal Campaign, and office-wide meetings and conferences.





OIG Hotline

The Office of Inspector General (OIG) Hotline is a convenient mechanism employees, contractors, and others can use to report instances of suspected fraud, waste, abuse, and mismanagement within the FDIC and its contractor operations. The OIG maintains a toll-free, nationwide Hotline (1-800-964-FDIC), electronic mail address (IGHotline@FDIC.gov), and postal mailing address. The Hotline is designed to make it easy for employees and contractors to join with the OIG in its efforts to prevent fraud, waste, abuse, and mismanagement that could threaten the success of FDIC programs or operations.

To learn more about the FDIC OIG and for complete copies of audit and evaluation reports discussed in this Semiannual Report, visit our Web site: <http://www.fdicig.gov>

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Federal Deposit Insurance Corporation
Office of Inspector General
3501 Fairfax Drive
Arlington, VA 22226