



Federal Deposit Insurance Corporation
Office of Inspector General

**Semiannual
Report
to the Congress**

Including the
OIG's 1999
Performance Report
October 1, 1999 - March 31, 2000



A job well done...

Celebrating Success

The OIG proudly recognizes the accomplishments of its Y2K audit team. The team's cooperative efforts with the Corporation over a 3-year period to address the technological challenges posed by the century date change helped ensure a successful transition to the millennium. Congratulations to the following individuals:



Front row left to right: Mike Silagyi, Monte Galvin, Denise Douglas, Leo Gallagher. Back row left to right: Scott Miller, Julie King, Jim Sommers, Peter Sheridan.

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Inspector General's Statement

The Corporation's efforts to address the century date change over the past 3 years helped maintain the stability of and public confidence in the nation's financial system. The Office of Inspector General (OIG) was pleased to have played a part in helping to ensure a successful transition to the millennium, and we congratulate the FDIC on its success. We are especially proud of the OIG staff who participated on the Y2K team.

Since January 1, the FDIC has had little time to rest. Challenges that may have been slightly eclipsed by Y2K are now in the forefront and coming at the Corporation head-on. Consider some of the significant changes occurring around us.

On November 12, 1999, the Gramm-Leach-Bliley Act was enacted. This legislation has created the most sweeping changes in banking law since the 1930s. It allows affiliations between insured banks and financial companies, including securities and insurance firms, in new types of entities known as "financial holding companies." The Act also allows national banks to form financial subsidiaries that could engage in financial activities that, in general, do not include insurance or real estate development/investment. It also requires financial institutions to establish privacy policies to protect the confidentiality of customer information. We will all soon experience some of the impacts of these changes.

Many of us can vividly recall our first experiences banking in small hometown banks. But more recently, as institutions have been consolidating, huge conglomerates, often called "megabanks," have been created. With passage of the Gramm-Leach-Bliley Act, these megabanks and the services they provide will likely become increasingly complex. Along with them come new risks and challenges for the FDIC. Recent fluctuations in the stock market remind us how volatile the economy can be and that large institutions can find them-

selves in trouble with little warning. In her recent State of the Corporation speech, the Chairman of the FDIC announced her three most recent corporate priorities, one of which was deposit insurance reform. She stressed the need for the Corporation to reexamine its current "one size fits all" approach to insurance premiums in light of the increased risks that some of these very large institutions pose.

Although there have been relatively few bank failures over the past sev-

" Washington DC —
On the first day of the
Year 2000, the
nation's banks,
thrifts, and credit
unions are conduct-
ing business as
usual...No significant
disruptions resulting
from the century date
change have been
detected."

FDIC Press Release
January 1, 2000

eral years, the Chairman noted that one-half of the banks that have failed since April 1998--that is, 6 of 12 institutions--were involved in subprime lending activities. The loss associated with a failure involving subprime lending is generally five times greater than that of other failures. And thus, a second priority issue for the FDIC is to look at such lending practices and the risks they pose to the insurance funds.

Always alert to protecting consumers, a third priority issue for the Chairman is predatory lending. Such

lending practices often occur in poor neighborhoods and frequently target elderly or minority homeowners. The Corporation will be developing guidance to ensure banks do not unwittingly support predatory practices.

Underlying and at the same time forming a backdrop for all of these challenges is the amazing information technology revolution. The institutions supervised by the FDIC rely on and use thousands of technically complex systems as they conduct their business activities. The FDIC itself has embraced technology as an invaluable and powerful tool for conducting its work. Along with the advantages of such a tool come risks and threats both to the safety and soundness of institutions supervised and to the security of the Corporation's own information and systems. News stories have featured incidents of hackers intruding and disrupting the business operations of both major corporations and federal agencies. Tough issues relating to protecting individual privacy in an electronic age arise as well. The Corporation needs to safeguard its systems and protect consumer rights in the industry it supervises and also guard the privacy of the Corporation's own employees.

Another very drastic change has been occurring in the FDIC workforce over the past 8 years. As previous semiannual reports have highlighted, downsizing, retirements, and other attrition have reduced the size of the FDIC's workforce dramatically--from a high of about 15,600 employees in mid-1992, the Corporation currently operates with less than half that number of staff: 7,177. By the end of 2000, the Corporation predicts a workforce of 6,549. Given the new challenges in the industry environment and those associated with the new technology, the Corporation needs to address a number of "human capital" issues. Its employees are its greatest asset; the Corporation will need to ensure that it has a sufficient number of staff and align and prepare its workforce to

successfully address the challenges discussed above and new ones that it may not even anticipate at this moment.

In addressing such challenges, the Corporation needs to be innovative and flexible in its approaches and remain open to new ways of operating and managing resources, particularly its human resources. This is especially true in a nation with a healthy economy and stiff competition for qualified personnel with needed expertise. From our vantage point, the Corporation is thoughtfully identifying those areas where it needs to focus, planning its approach, and acting aggressively to address the challenges. It has already conducted or planned a number of public forums that are bringing together industry experts, government policy makers, consumer advocates, and congressional staff to discuss solutions to problems and challenges--much like it did when it addressed the Y2K challenge. Through many of its diversity-related initiatives, it is also placing great emphasis on developing its human resources, providing professional development opportunities, and trying to ensure that its workforce is fully prepared to deal with new issues and challenges.

What is the OIG's role amidst such circumstances? I believe an independent OIG has valuable perspectives to add as the Corporation deals with these issues, and we will be working with corporate management in addressing the Chairman's priorities. To make sure we can add the most possible value to the Corporation, we have looked at ourselves in the mirror in a number of ways. For instance, we have conducted two client surveys over the past 2 years. Through our Learning Organization initiative we have taken a very critical look at our processes, products, and working relationships. We are preparing a workforce plan to guide us into the future. We have studied best practices from the General Accounting

Office, the private sector, and the OIG community.

As a result of all of these initiatives, we too are changing. We realize that to be successful and stay relevant, we cannot be satisfied with the status quo, but rather must strive always to do things better. And we realize we must develop and prepare every one of our staff to meet the challenges involved in accomplishing our own mission that is inextricably linked to the Corporation's. We have worked hard to strengthen partnerships with the Corporation and are committed to being accountable for producing results.

In that regard, this reporting period and for the first time we are including as an integral part of this semiannual report the results of our *1999 Performance Report* (see pages 40-55). It is our hope that in conjunction with the semiannual report, which presents our results for a given 6-month period, readers can also examine our performance against goals we have set for ourselves over a longer time frame. Reporting our results in the spirit of the Government Performance and Results Act is an evolutionary process. We continue working to refine our performance goals and establish more meaningful measures of success--both quantitative and qualitative.

In my last two semiannual report statements, I talked about the need for strong, sustained leadership at the FDIC. In particular, I had been concerned that the position of Director on the FDIC Board has been left vacant since September 1998. The President has nominated an individual and is awaiting congressional confirmation of the appointment. Confirmation hearings are scheduled before the Senate Committee on Banking, Housing, and Urban Affairs on May 11, 2000. In light of the many pressing issues currently facing the Corporation, I reiterate my hope that the position will soon be filled so that the Board can operate at full strength.

On a positive note, the Corporation has welcomed several new senior managers over the past months. The Chairman has appointed a Chief of Staff and named permanent Directors for two important units--the Division of Resolutions and Receiverships and the Office of the Ombudsman.

With respect to leadership, I would also like to acknowledge the recent retirement of my Principal Deputy, James R. Renick, during the reporting period. Jim retired after more than 23 years of federal service, and his colleagues and I greatly appreciate the role he played at the FDIC OIG. We wish him well in every future endeavor.

In closing, I am reminded of a quotation to the effect that we are living at a time in history where change is so quick that we begin to see the present only when it is already disappearing. We can't let that happen. We're excited about the current challenges we face. We want to address them, keep pace, and be fully ready for the next ones. We look forward to working in partnership with corporate management on how best to handle such daunting changes and challenges. And that's a very compelling reason for all of us to come to work each day and serve the American people.

We appreciate the support of the Corporation and the Congress over the past 6 months and are committed to continuing to pursue the Inspector General mission with great enthusiasm and pride.



Gaston L. Gianni, Jr.
Inspector General
April 30, 2000



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Major Issues

The Major Issues section of our report focuses on key challenges the FDIC faces as it works to accomplish its mission. Having successfully ushered in Y2K, the Corporation must continue to address other risks to the insurance funds in a banking industry environment of changing and expanding services. At the same time, the Corporation must continue to effectively supervise the financial institutions it regulates and protect consumers' rights. With respect to managing and liquidating assets, the Corporation must always seek to maximize recoveries; it needs to be particularly vigilant regarding programs where large sums of money are at stake and where the FDIC does not control the entire management and disposition process. The Corporation must also continue its efforts to pursue court-ordered restitution and other debts that it is owed. In conducting its information technology (IT) activities, the Corporation must give priority to strategically planning for its IT resources to maximize its effectiveness. It also needs to follow sound system development life cycle procedures and ensure adequate system security. Strong controls and effective oversight of the FDIC's contracting activities are also essential to the Corporation's success. Contracting for much needed IT services must be done in the most cost-effective manner.

Major downsizing over the past 5 years and natural attrition have greatly impacted the FDIC workplace. The loss of human resources has resulted in corresponding losses of leadership and, in some cases, expertise and historical knowledge. The Corporation's diversity efforts are intended to help restore some of that lost talent and skill. The FDIC must build on ongoing initiatives and



develop a comprehensive, integrated approach to human capital issues. Finally, under the provisions of the Government Performance and Results Act, for all of these major issues, the Corporation must establish goals, measure performance, and report on accomplishments.

Our Major Issues section also discusses the OIG's ongoing and planned work to help the Corporation achieve success in confronting these major issues and their associated challenges. We discuss areas where we identified opportunities for cost savings and recoveries or other improvements and the recommendations we made in those areas. Questioned costs and funds put to better use for the period total \$3.5 million. We made 68 nonmonetary recommendations. Our work targets all aspects of corporate operations and includes a number of proactive approaches and cooperative efforts with management to add value to the FDIC (see pages 10 - 25).

Investigations

The operations and activities of the OIG's Office of Investigations are described beginning on page 26 of this report. As detailed in the Investigations section, the Office of Investigations is reporting fines, restitution, and recoveries totaling approximately \$16 million. Cases leading to those results include investigations of conspiring to obstruct a bank examination, bank fraud, and theft of public funds. Some of the investigations described reflect work we have undertaken in partnership with other law enforcement agencies and with the cooperation and assistance of the FDIC's Division of Supervision and Division of Resolutions and Receiverships. To ensure continued success, the OIG will continue to work collaboratively

with FDIC management, U.S. Attorneys' Offices, the Federal Bureau of Investigation, and a number of other law enforcement agencies (see pages 26 - 31).

OIG Organization

The OIG Organization section of our report highlights several key internal initiatives from the reporting period. These include developing a long-term audit strategy, pursuing our various office components' action plans, and re-surveying our corporate customers. Recognizing that OIG employees are our greatest asset, we are also focusing increased attention on our own human capital concerns. Additionally, the section includes a discussion of some of the key activities of the President's Council on Integrity and Efficiency on which the Inspector General serves as Vice Chair. This section also references some of the assistance we have provided to management during the reporting period, including assisting the Corporation during the Y2K rollover weekend, working further to establish communications between the Division of Supervision and the OIG regarding open financial institution criminal investigations, and making presentations at corporate conferences and meetings. We present a listing of laws and regulations reviewed during the past 6 months and also capture some of our other internal initiatives this reporting period, including the implementation of feedback mechanisms to measure the success of audit and evaluation reviews and reports, creating an internal diversity Web site, and continuing our electronic workpaper project. In keeping with our goal of measuring and monitoring our progress, we visually depict significant results over the past five reporting periods (see pages 32 - 39).

OIG's 1999 Performance Report


We are pleased to include in this document our *1999 Performance Report* as a separate but integral component of our *Semiannual Report to the Congress*. Our performance report summarizes our progress against our annual plan, which contained 38 specific goals captured under the following three areas: Audits, Evaluations, and Investigations Add Value; Professional Advice Assists the Corporation; and OIG Communicates Effectively With Clients/Stakeholders. Our performance report assesses those areas where we have made substantial progress, performed reasonably well, or need to substantially improve. In that our strategic planning efforts continue to evolve, it also addresses those areas where we need to focus attention for 2000 and beyond. It is our hope that by presenting this report along with our semiannual report, the Congress and other readers will have a more complete picture of the FDIC OIG's overall performance and accountability (see pages 40 - 55).

Appendixes

We list the Inspector General Act reporting requirements and define some key terms in this section. The appendixes also contain much of the statistical data required under the Act and other information related to our work this period (see pages 56 - 66).

Highlights

- The Office of Audits and Office of Congressional Relations and Evaluations issue a total of 23 reports and 15 audit- or evaluation-related correspondence. The reports identify questioned costs of \$1.34 million and funds put to better use of \$2.18 million. Management disallows \$577,512 of costs questioned.
- OIG reports include 68 nonmonetary recommendations to improve corporate operations. Among these are recommendations to carry forward a number of Y2K-related initiatives to enhance the Corporation's overall information technology program, better identify and account for receivership assets, improve long-range information technology strategic planning and performance measurement, and enhance data integrity controls in certain critical systems.
- OIG investigations result in 5 arrests; 9 convictions; 12 indictments/informations; and about \$16 million in total fines, restitution, and monetary recoveries.
- The OIG successfully coordinates Y2K work with the Division of Supervision, Division of Information Resources Management, Division of Resolutions and Receiverships (DRR), and Division of Insurance as Year 2000 arrives. OIG staff observe "rollover" weekend of December 31, 1999 - January 2, 2000. The OIG issues its *Special Report on the FDIC's Year 2000 Efforts*.
- The OIG's review of the FDIC's voice and video contract with MCI results in a contract modification wherein we estimate the FDIC will save \$2.18 million over the remaining 21 months of the contract, a program savings of 47 percent.
- The OIG participates in a multi-agency investigation with special agents of the Federal Bureau of Investigation, Internal Revenue Service, U.S. Postal Inspection Service, and Department of the Treasury OIG. Efforts result in the indictment of two bank officials of the failed First National Bank of Keystone, Keystone, West Virginia, on charges of conspiracy to obstruct a bank examination.
- The OIG reviews 9 proposed or existing federal regulations and legislation and 12 proposed FDIC policies and responds to 18 requests and appeals under the Freedom of Information Act and Privacy Act.

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- The OIG continues efforts with DRR to pursue court-ordered restitution. Since October 1999, the OIG has opened 13 new cases that are being coordinated with DRR and involve a total of over \$87 million in outstanding restitution orders or other types of debt. As of the end of the reporting period, 64 such investigations were ongoing.
 - The OIG and U.S. General Accounting Office continue their joint effort to audit the Corporation's financial statements. The OIG plays an increasingly greater role and assumes audit responsibility for major portions of the audit.
 - The OIG coordinates with and assists management on a number of projects, including participating on task groups such as the Chairman's Diversity Council and the Alternative Dispute Resolution Steering Committee; meeting to share information regarding our ongoing investigation of the failure of Keystone National Bank, Keystone, West Virginia; and presenting remarks at corporate conferences and meetings.
 - The OIG submits Fiscal Year 2001 Appropriation Request for \$33.7 million to the House and Senate Subcommittees on VA, HUD, and Independent Agencies, Committee on Appropriations.
 - The OIG provides a written Statement for the Record in response to a request from the Committee on Banking and Financial Services, U.S. House of Representatives, for views on H.R. 3374. This proposed legislation would strengthen the FDIC's ability to monitor and assess risk in financial institutions for which the FDIC is not the primary federal regulator.
 - The OIG undertakes a number of internal office initiatives, including completing a second external customer survey; launching our Diversity Web site; issuing our *2000 Audit Plan*, *Annual Performance Plan*, and *Internal Resource Management Performance Plan for 2000*; implementing a rotational assignment program; and furthering use of customer feedback mechanisms for audits and evaluations.

Major Issues

Under the Inspector General Act, the FDIC OIG is charged with promoting the economy, efficiency, and effectiveness of FDIC programs and operations and protecting against fraud, waste, and abuse that can harm or hinder the Corporation's success. In that regard, the OIG has identified a number of major issues facing the Corporation. The results of our work over the past 6 months are presented in the context of these issues. The major issues are closely related to the Corporation's mission: to contribute to the stability and public confidence in the nation's financial system by **insuring deposits, examining and supervising financial institutions, and managing receiverships**. Our work over the past 6 months addresses these major issues and supports the corporate mission.

Addressing Risks to the Insurance Funds

Y2K Success

As Y2K loomed on the horizon, the FDIC Chairman characterized the year 2000 date change as the FDIC's "number one safety and soundness priority." We are pleased to report that the FDIC successfully met the Y2K challenge and did its part to protect the American public from pre-eminent risks to the banking operations and services posed by the calendar change to the year 2000.

Preparing for the year 2000 was a major endeavor for the Corporation. As we have reported in past semiannual reports, the Corporation's overall approach was to follow the five-phase, structured approach and rigorous program management process developed by the U.S. General Accounting Office and other recognized information technology (IT) experts. The phases covered the awareness, assessment, renovation, validation, and implementation of the FDIC's Y2K program. The FDIC, in partnership with the other members of the Federal Financial Institutions

Examination Council, developed a similar methodology to ensure that the financial institutions it supervises were prepared for the century date change.

Overall, the FDIC expended over \$105 million in personnel, hardware, software, and contracted costs through January 31, 2000 to ensure the Y2K readiness of its internal systems and operations and the financial institutions that it supervises. Over a 3-year period, the OIG devoted over 2,200 staff days reviewing and providing feedback on the Corporation's activities in an effort to ensure overall Y2K success. As a result of the FDIC's commitment to this endeavor, the financial institutions generally experienced business as usual during and after the rollover, with only minor problems that were quickly corrected. In addition, the public's confidence in the banking system was maintained. On the internal side, the FDIC's investments resulted in a successful change to the year 2000 for the Corporation's IT resources and other benefits that will extend into future operations. These benefits include accurate hardware, software, and data exchange inventories and enhanced IT policies and procedures that, if continued for all related Division of Information Resources Management operations, can improve the FDIC's overall IT program.

The OIG's Y2K Efforts

Beginning in February 1997, the OIG engaged in a comprehensive assessment of the FDIC's efforts to ensure Y2K readiness of both the financial institutions that it supervises and its internal systems. Subsequent to the rollover weekend leading into 2000, the OIG issued a special report summarizing both the Corporation's Y2K actions and the OIG's work to help ensure a successful transition to the new millennium (*Special Report on FDIC's Year 2000 Efforts*, Audit Report No. 00-12).

The OIG believes that the Corporation would be well served if

many of the initiatives implemented to address Y2K are carried forward and transferred to other aspects of corporate activities that impact several different FDIC divisions and offices. Our final report emphasized that view and offered recommendations to that end.

During our audit effort, we proactively provided management with suggestions for process improvements. On the supervisory side, we provided suggestions for (1) ensuring the consistency of Y2K assessment ratings, including issuing clarifying guidance and requiring examiners to fully develop and document assessment conclusions; (2) improving information contained in the Division of Supervision's (DOS) Y2K tracking system; (3) communicating Y2K assessment results in a timely manner; (4) following up with institutions to ensure that they had completed testing; (5) ensuring that institutions had completed their contingency plans; and (6) implementing an independent review process for the Y2K assessment reports and related work papers.

With respect to the Corporation's internal systems, we suggested (1) updating IT inventories to identify duplicative hardware and software, (2) improving the mission-critical application contingency planning process, (3) expanding the process used to certify applications for Y2K compliance, (4) implementing certain control procedures for all computer platforms, (5) developing a business continuity and contingency plan, (6) finalizing and formalizing testing policies and procedures, and (7) correcting specific date-related issues discovered during our independent verification validation testing.

Following the successful transition to 2000, the Corporation summarized lessons learned, benefits derived, and next steps or initiatives that could be incorporated into the FDIC's normal business processes in a document entitled *Y2K - A Retrospective Look* dated January 21, 2000. This

document is an interdivisional look at the FDIC's Y2K efforts and contains our input from an audit perspective. The issues identified by our office and the Corporation that provide the greatest opportunity for continued improvements include the following:

- Maintaining and periodically updating DOS's database of service providers, software vendors, and affiliated banks to facilitate solutions in the event an institution experiences problems with a servicer or vendor-supplied product;
- Stressing to supervised institutions the importance of maintaining adequate business resumption and contingency plans and monitoring their maintenance of such plans;
- Ensuring that internal manuals and procedures that provide operational guidance remain current;
- Maintaining accurate and complete IT inventories for the FDIC's hardware, software, and telecommunications resources;
- Maintaining up-to-date and comprehensive operating procedures for FDIC buildings;
- Maintaining a repository containing information on the FDIC's external data exchange partners, including points of contact, data formats, and frequencies of exchange;
- Maintaining an up-to-date corporate-wide business continuity and contingency plan;
- Maintaining and periodically validating the accuracy and completeness of contingency plans for mission-critical application systems;
- Adopting and updating the expanded Y2K configuration management and version control program for all IT platforms;
- Incorporating the testing policies and procedures developed for Y2K into continuing FDIC policy; and

- Enhancing DOS's quality assurance review program through an independent review of examination reports and supporting documentation to validate examination conclusions.

The OIG received full agreement from corporate officials on the recommendations we made to implement or sustain all of these practices.

Other Risks Require Vigilance
Notwithstanding the alleviation of the Y2K threats, the Corporation must remain alert to emerging risks and adapt to a rapidly changing financial services marketplace. In terms of size, complexity, and sensitivity to the global economy, banks have undergone tremendous changes. The FDIC is working aggressively to keep pace with the increasing number of large institutions, the businesses they conduct, and the risks they pose. In light of impending risks, two questions arise: (1) How would the Corporation deal with a "megabank" that is in trouble or fails? and (2) What expanded bank activities should be covered by the FDIC's "safety net"?

The issue of megabanks is significant. In recent years, major banks have been rapidly developing into enormous and complex financial conglomerates. The total value of bank mergers in 1998 alone, \$233 billion, exceeded the combined total from the previous 6 years. The industry has undergone widespread consolidation, and, as of September 30, 1999, the 39 largest banking organizations in the United States controlled assets totaling \$4 trillion in FDIC-insured institutions. The trend toward consolidation continues in dramatic fashion and will continue to place increasing risks on the deposit insurance funds. As of September 30, 1999, there were 39 megabanks in the country--that is, 39 banks with \$25 billion or more in total assets.

As noted in our last semiannual report, on September 1, 1999, the Office of the Comptroller of the Currency closed the First National Bank of Keystone, Keystone, West Virginia. Keystone was a \$1.1 billion institution closed after evidence of apparent fraud was found that resulted in the depletion of the bank's capital. The FDIC was named receiver and the resulting loss to the insurance fund was estimated to be between \$750 million and \$850 million as of December 31, 1999. Failure of a megabank could take an even higher toll on the insurance funds.

Banking activities related to cyberbanking, electronic cash, and other highly technical financial delivery systems also pose increasing risks to the safety and soundness of the banking industry and, consequently, the deposit insurance funds. Additionally, personal bankruptcies, syndicated lending, securitizations, international investments, predatory lending, subprime lending, and credit card lending are areas where adverse trends could cause losses to the FDIC and the banking industry. The Corporation must guard against these risks and continue to ensure that consumers have fair and equal access to financial services. Protecting customers' privacy in a rapidly growing information marketplace is also an issue of concern. Consumer advocates, government policymakers, congressional staff, bankers, and policy analysts explored the issue of the privacy of consumer financial information in an electronic age at an interagency public forum hosted by the FDIC on March 23, 2000.

The Chairman has identified both predatory lending and subprime lending as priority issues that the FDIC will be addressing aggressively. Predatory lending practices frequently occur in poor neighborhoods and often target elderly or minority homeowners. The Corporation will be developing guid-



OIG Addresses Emerging Risk

Privacy has been and continues to be of significant concern to the public and the Congress. Privacy concerns are defined to impact the acquisition, use, and disclosure of personal information. Information privacy recognizes that personal information can be used improperly, unfairly, or for purposes other than those intended by an individual. The Corporation must be sensitive to privacy issues on several levels: as a government agency, in its capacity as a regulator of financial institutions, and as an employer. Given the continued level of concern related to protecting privacy, the OIG initiated work in this area.

At the onset of our review, we recognized that privacy was an issue that cut across all of the Corporation's organizational boundaries. To focus our resources and address the areas of highest concern and risk, we solicited the views of all FDIC Division and Office Directors and identified three areas for a series of reviews related to privacy: (1) FDIC's Web Site Privacy Policy, (2) FDIC's Efforts to Protect Its Employees' Privacy, and (3) FDIC's Efforts to Protect Consumers' Right to Financial Privacy.

The content and visibility of privacy and security policy statements for federal Web sites is an emerging issue area. Given the heightened concerns about online privacy and, in particular, the disclosures made about information collected from visitors to web sites, we decided to focus our first review on the FDIC's policies and practices for handling such information. We expect to discuss the results of this review, as well as the remaining reviews, in future semiannual reports.

ance for its supervised institutions and examiners to ensure that banks do not unwittingly support predatory lenders. Protecting consumers is a key priority.

With respect to subprime lending, the Chairman reported in her recent State of the Corporation speech that one-fifth of the banks on the FDIC's problem list are involved in subprime lending. One-half of the banks that have failed since April 1998 -- that is, 6 of 12 institutions -- engaged in such lending. The loss associated with a failure involving subprime lending is generally five times greater than that of other failures. As such, the Corporation will continue to address the risks of subprime lending by focusing on loan loss reserves and by raising capital standards for some subprime lenders whose capital is inadequate for the risks they pose.

The Corporation must also ensure that the premium system reflects what the risk-focused supervisory process indicates. The Corporation has been working to identify institutions that pose the greatest risks and is asking if a "one size fits all" approach to insurance makes sense given these risks. A key question is determining whether the system unnecessarily allows some institutions to increase risks to the insurance funds without paying additional costs. Another issue to address is whether the insurance system should treat smaller institutions differently than it treats larger, more complex institutions.

In addition to the above-discussed risk areas in the banking industry, on November 12, 1999, the Gramm-Leach-Bliley Act was enacted. This legislation allows, under certain circumstances, affiliations between and among commercial banks, insurance companies, securities firms, and other financial services providers. The legislation provides a framework for significant restructuring within the financial services industry, generally, and will open many new business

activities to the banking industry in particular. Such restructuring poses additional, significant challenges to bank regulators and could create new and very different risks to the deposit insurance funds.

OIG Work to Address Risks

The OIG has conducted and planned a number of reviews to address the risks faced by the Corporation in its role as regulator of a dynamic industry. Our work addresses such issues as back-up examination authority, megabanks, Internet banking, and the risk-focused examination process.

Backup Authority/Megabanks

As referenced in our last semiannual report, the OIG conducted a review focusing on the FDIC's efforts to monitor risk at insured institutions for which the FDIC is not the primary federal regulator. Our review focused on the "backup" examination process for insured thrifts, national banks, and state member banks. We also looked at DOS's efforts to monitor risks associated with the nation's largest and most complex financial institutions, often referred to as "megabanks," as discussed above.

During the reporting period, we issued an audit memorandum to the FDIC Chairman communicating the results of our review. We also submitted a statement for the record to the House Committee on Banking and Financial Services in connection with H.R. 3374--proposed legislation designed to strengthen the FDIC's ability to monitor and assess risk in those financial institutions for which the FDIC is not the primary federal regulator. That statement reinforced the views we communicated first to the Chairman.

The following discussion summarizes the ideas we expressed in those communications.

The FDIC Needs Expanded Special Examination Authority

In reviewing the FDIC's participation in safety and soundness examina-

tions in its backup capacity, we focused on assessing the level of cooperation DOS has received from the other federal bank regulators--the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), and the Office of Thrift Supervision (OTS). Under the current delegation from the FDIC Board, FDIC examiners must obtain the concurrence of the primary federal regulator or approval of the Board before conducting banking examination activities.

For the 42-month period ending March 31, 1999, we identified 90 instances of backup examination activity. Overall, we found that DOS regional managers believe that they have good working relationships with the other federal regulators, and that when dealing with small- and medium-sized institutions, there have been few substantive problems in sharing information and gaining access to banks. However, we learned of several instances during the period reviewed where DOS proposed to join another federal bank regulator in a safety and soundness examination and was initially denied permission. In all instances, the other regulators eventually reversed their initial positions, and DOS was able to resolve the matters before taking these cases to the Board. The most notable instance occurred when the OCC initially denied DOS permission to participate in the 1998 examination of The First National Bank of Keystone, Keystone, West Virginia (Keystone), and then limited the extent of FDIC involvement in that examination. As noted above, Keystone's failure in 1999 has caused estimated losses to the Bank Insurance Fund ranging from \$750 million to \$850 million.

As demonstrated in the case of Keystone, the restrictions imposed by the current delegation can allow the primary federal regulator to significantly influence the timing and

scope of the FDIC's backup examination, thus reducing the benefit of the secondary level of review. The OIG believes that requiring concurrence by the primary federal regulator may impair the FDIC's independence, limit the value of the secondary level of review, and could be viewed as an organizational conflict of interest. Requiring approval by the FDIC's Board of Directors on a case-by-case basis could delay the FDIC's examination in potentially critical situations and the start of enforcement action based on examination results.

To ensure that the additional level of review intended by the special examination provision operates as provided by law and that the FDIC takes the most effective approach to monitoring risks to the deposit insurance funds, the OIG believes that the FDIC needs to be given expanded authority to conduct special examinations. A delegation from the FDIC Board to the FDIC Chairman would allow the FDIC to make an independent decision to initiate special examination activities based on criteria of increased or unusual risk to the funds and not require case-by-case concurrence by the primary federal regulator or the Board's approval. Both of these current requirements can delay the initiation of a process that needs to be expeditious.

Accordingly, in our audit memorandum we suggested that the Chairman request delegated authority from the FDIC Board of Directors giving the Chairman authority to initiate special examinations of insured institutions without having to secure the concurrence of the primary federal regulator or the approval of the Board. Alternatively, we suggested that the Chairman seek a legislative change to vest this authority in the Chairman.

At a hearing on Recent Bank Failures and Regulatory Initiatives held on February 8, 2000 by the House Committee on Banking and Financial Services, Chairman Tanoue stated

the following: "H.R. 3374 would give the Chairman of the FDIC, rather than the FDIC Board, the authority to authorize a special examination of an insured institution when such action is necessary to determine the condition of the institution for insurance purposes."

The FDIC Needs Complete and Timely Information to Effectively Monitor Megabanks

As of September 30, 1999, the 39 largest banking organizations in the United States, often referred to as "megabanks," controlled assets totaling \$4 trillion in FDIC-insured institutions. This amount represents 60 percent of the total assets of the approximately 10,300 FDIC-insured institutions. The FDIC is the primary federal regulator for only \$101 billion in three of these institutions. The OCC, FRB, and OTS regulate the remaining 36 institutions. Because the FDIC has a presence in only 3 of the 39 largest institutions, it is heavily dependent on the other federal regulators to provide the FDIC with the information it needs to monitor megabank activities. As referenced earlier, with the potential of even more consolidations as a result of the Gramm-Leach-Bliley Act, the FDIC's need for information is even more critical.

The DOS case managers responsible for monitoring the megabanks describe the level of cooperation they receive from their regulatory counterparts as satisfactory. However, much of the information that is provided to DOS is dated and/or does not contain sufficient detail to assess insurance risk. Additionally, the case managers are not sure of the universe of available information maintained by the primary regulators, nor are they aware of the full range of a megabank's off-balance sheet activities such as unfunded commitments, letters of credit, and trust operations. Equally important, the case managers are generally not permitted to attend meetings between the primary regulators and bank management during

which examination findings and supervisory concerns are discussed and are thus prevented from gaining valuable insights into an institution's operations and risks. Although DOS has the information necessary to look back and evaluate where a bank has been, its case managers are not being provided the opportunity to scrutinize a bank's current and planned operations and activities on a timely basis. The effect of the conditions under which the case managers operate is that DOS may not have a timely or comprehensive understanding of the emerging risks that could be developing in the largest banks.

Although the FDIC is not the primary regulator for most of the megabanks, it would be called on to resolve the failure of a megabank. Thus, the Corporation has a compelling need to become more familiar with the activities of these institutions and with the development of any potential risks to the insurance funds. Because it is not feasible or prudent for the FDIC to duplicate the efforts of the other regulators, nor would the law permit such duplication, we believe the Corporation needs to develop closer ties to its regulatory counterparts and work toward obtaining real-time information relative to megabank financial activities.

In today's rapidly changing financial environment, the economic conditions faced by the largest banks can change direction with very little warning. The near collapse of Long-Term Capital Management in September 1998 and the failure of Keystone underscore the dangers that exist and highlight the need for banking regulators to work closely with each other and share information. We believe that developing detailed formal agreements with the other regulators would significantly improve the FDIC's ability to carry out its responsibility to monitor its insurance risk.

In our audit memorandum, we suggested that the Chairman have DOS work toward developing agreements with the other bank regulatory agencies that would allow for the provision of a consistent, minimum level of information/access for all FDIC case managers.

On December 16, 1999, the Director of DOS and the Director of the Division of Insurance issued a memorandum to the FDIC Chairman's Working Group discussing the types of information about large banks that the FDIC needs to carry out its responsibilities and setting forth some specific proposals for consideration by the primary federal regulators. Included in that memorandum were several references to the OIG's work and related concerns, as discussed above. We will continue to monitor the Corporation's efforts as it seeks to fully understand the operations of large banks and the possible impact that a single insured institution or group of insured institutions can have on the deposit insurance funds.

During the hearings on H.R. 3374, the federal regulators promised renewed efforts to ensure improved cooperation among the regulators. We understand the bill was referred to the House Subcommittee on Financial Institutions and Consumer Credit, Committee on Banking and Financial Services, on December 2, 1999.

Internet Banking

The banking industry is rapidly expanding into the area of Internet banking. These banks are also assisting other corporations and businesses in initiating transactions over the Internet. The principal benefits of Internet banking--its global reach and accessibility--present significant security and other risks. DOS's challenge is to ensure that it effectively evaluates Internet banking practices at FDIC-insured institutions during its safety and soundness examination process.

During the reporting period we issued results of an audit survey that looked at this issue. We found that DOS's procedures generally provide a sound framework for evaluating Internet banking practices. However, we identified several opportunities to enhance supervisory activities related to this type of banking.

We recommended that examiners be required to use the Internet and FDIC Intranet during examination planning and that such efforts be documented. Additionally, electronic banking examination training should emphasize these steps.

DOS's Risk-Focused Examination Process

We are also nearing completion of our follow-up review of DOS's risk-focused examination process. Since 1997, the FDIC has used a risk-focused examination approach. Rather than following a standard examination program requiring the review of a large sample of loans, this approach requires the examiner to first identify and test controls within a bank and then modify sample selections accordingly. This targeted examination approach should focus examination resources on the greatest areas of risk in a bank, thus increasing effectiveness without requiring additional time. The OIG first audited the process in 1998 and made recommendations for improvements to management. Our follow-up audit is determining whether corrective actions have been implemented and the process is working as management intended.

Supervising Insured Institutions and Protecting Consumer Interests

As of December 31, 1999, the FDIC was the primary federal regulator for approximately 5,700 financial institutions that have assets totaling nearly \$1.3 trillion. In addition, the FDIC provides supervisory oversight, though

not as the primary regulator, for about 4,430 financial institutions with total assets over \$5.4 trillion. Although a steady decline in the number of insured institutions is projected over the next several years, total assets are projected to increase. The challenge to the Corporation is to ensure that its system of supervisory controls will identify and effectively address financial institution activities that are unsafe, unsound, illegal, or improper before the activities become a drain on the deposit insurance funds.

In accordance with statutory requirements and corporate policy, DOS projects starting almost 2,800 safety and soundness examinations in 2000. DOS also provides off-site monitoring for all insured institutions, including those for which it is not the primary federal regulator. This monitoring includes reviewing OCC, OTS, and FRB examinations and Securities and Exchange Commission filings. DOS also processes applications for numerous bank activities such as new bank proposals, mergers, and change of control requests. Furthermore, DOS initiates formal enforcement actions and informal corrective programs as a result of its examinations.

Protecting Consumers' Rights

In addition to safety and soundness issues, the Corporation must deal with matters related to bank compliance with laws pertaining to consumer protections and civil rights that are equally important in today's banking environment. A key consideration in this regard is the Community Reinvestment Act (CRA), a 1977 law intended to encourage insured banks and thrifts to meet local credit needs, including those of low- and moderate-income neighborhoods, in a manner consistent with safe and sound operations. The Congress has mandated that the bank regulatory agencies evaluate institutions' CRA performance and that these evaluations be disclosed to the public.

The environment in which financial institutions operate is evolving rapidly, particularly with the acceleration of interstate banking, new banking products, electronic banking, and consolidations that may occur among the banking, insurance, and securities industries resulting from the enactment of the Gramm-Leach-Bliley Act. Further, due to the public interest aspect of consumer protections and potential consumer exposures, the FDIC has a strong incentive for the early detection and correction of problems in institutions, promoting compliance with consumer protection laws and regulations, and increasing public understanding of and confidence in the deposit insurance system. The Division of Compliance and Consumer Affairs (DCA) is currently reassessing its compliance and CRA workload in consideration of the extended CRA examination cycles required by the Gramm-Leach-Bliley Act. DCA functions also include responding to consumer complaints and inquiries. The volume of these complaints and inquiries is expected to decrease from 175,000 in 2000 to a range of 140,000 to 160,000 within the next 4 years.

With the enactment of the Gramm-Leach-Bliley Act, the FDIC, along with other financial institution regulators, must implement regulations requiring the institutions to develop programs to ensure the privacy of customer information. The Act limits the instances in which a financial institution may disclose nonpublic personal information about a customer to nonaffiliated third parties and requires a financial institution to disclose to its customers the institution's privacy policies and practices with respect to information sharing with both affiliates and nonaffiliated third parties. The Act further requires financial institutions to allow customers to opt out of such information sharing and requires that all notices to customers be clear and

conspicuous. On February 2, 2000, the bank regulators issued a joint notice of proposed rulemaking to implement these requirements. The agencies are currently evaluating the more than 6,000 comments and will be promulgating the final rules no later than May 12, 2000, as required under the Act.

OIG Work Looks at Supervision and Consumer Protection Issues

The OIG has several audits ongoing to address matters of supervision and consumer interests, the full results of which will be reported in our next semiannual report.

We are nearing completion of a material loss review of a bank failure that occurred during the reporting period, that of Pacific Thrift and Loan Company (PTL), Woodland Hills, California. PTL was closed on November 19, 1999 with total assets of \$117.6 million. At the time of closure, the FDIC estimated that the Bank Insurance Fund would incur a loss of \$49.9 million. The estimated loss was raised to \$52 million as of December 31, 1999.

The OIG is conducting this audit in accordance with section 38(k) of the Federal Deposit Insurance Act, which provides that if a deposit insurance fund incurs a material loss with respect to an insured depository institution on or after July 1, 1993, the Inspector General of the appropriate federal banking agency shall prepare a report to that agency reviewing the causes of the bank's failure and the agency's supervision of the institution. A loss is considered material if it exceeds \$25 million and 2 percent of the institution's total assets.

PTL was an industrial loan company. Our review is examining PTL's involvement in its principal business activity--the securitization of subprime mortgage loans that were either generated through one of its many loan production offices or purchased through other financial inter-

mediaries or brokers. Our attention is focusing on activities relating to the valuation of "interest-only residual receivables" -- a by-product of the securitization of the subprime loans. Additionally, we will report on the Corporation's supervision efforts and regulatory oversight in addressing the risks associated with the interest-only receivables.

With respect to protecting consumer interests, we have another audit in process. We performed an audit to determine whether DCA consistently applies CRA examination procedures within and among its regional offices and whether these procedures are applied in a manner that ensures that resulting ratings provide an accurate measure of the bank's performance.

Finally, during the reporting period we completed an evaluation of DCA's reporting of compliance and community affairs and outreach activities under the Government Performance and Results Act of 1993. Because this review is more closely linked to the major issue of "Establishing Goals and Measuring Results," we report our results in that section of this semiannual report.

Maximizing Returns from Failed Institutions

One of the FDIC's main goals is to minimize the negative financial effects of failing and failed insured depository institutions in its receivership management program. To do this, the Corporation concentrates on four areas: resolving institutions at the least cost to the insurance funds, managing and marketing failed institutions' assets to maximize return, pursuing monies due to the failed institutions, and resolving debts of the institutions fairly. Because of our current strong economy and the Corporation's concentrated efforts on preventing financial institutions' failures, the focus of the FDIC's attention has moved from resolving failed institutions to asset management

and disposition.

As of March 31, 2000, the FDIC held assets for liquidation that totaled approximately \$1.8 billion in book value. Although the current and projected asset workload is far below the \$165 billion held by the FDIC and Resolution Trust Corporation (RTC) in 1992, effectively managing assets to ensure their timely, efficient resolution at the least cost to the insurance fund continues to be one of the FDIC's priorities.

OIG Finds DRR's Subsidiaries Inventory Incomplete

As a result of our audit of the Division of Resolutions and Receiverships' (DRR) Northeast Service Center's (NESC) subsidiaries inventory, we concluded that NESC did not have a full accounting of all FDIC subsidiaries owned by failed institutions in its geographic area of responsibility. These subsidiaries consisted of subsidiaries of failed institutions as well as partnerships and joint ventures in which those subsidiaries had an ownership interest.

Specifically, since the start of the audit the OIG and NESC identified 731 subsidiaries that were not included in the FDIC's system of record for subsidiaries. Without a complete inventory, the FDIC cannot be assured that all financial institutions' receivership assets have been properly identified and thus appropriately managed or that the dispositions of subsidiaries have been properly accounted for and recorded. Furthermore, we could not determine whether NESC always performed asset searches before dissolving subsidiaries.

Our recommendations included that NESC should input the 429 subsidiaries identified by our audit in its tracking system and perform asset searches for the 731 subsidiaries mentioned above. In addition, we recommended that NESC coordinate with the Division of Finance's Field Finance Center in Dallas to identify and recover unclaimed accounts held

Update on Unclaimed Assets

On August 27, 1999, we issued an audit report entitled *Audit of Abandoned Assets Held by States' Unclaimed Property Agencies* that identified 3,945 accounts totaling about \$3.3 million belonging to the FDIC or its receiverships being held by California and Florida's unclaimed property agencies. The OIG recommended that the FDIC pursue recovery of these items as well as identify and recover FDIC assets that may be held in other states' unclaimed property agencies. Since then, the Division of Finance reported that as of April 4, 2000, they have identified about 10,000 potentially claimable items valued at between \$5 million and \$6 million. Although some states have been slow in responding to claims, the Division of Finance has collected approximately \$1 million thus far.

by states' unclaimed property offices that belong to subsidiaries of FDIC receiverships managed by the NES (see feature on Update on Unclaimed Assets).

Although DRR believed there was not adequate business justification to fully pursue several of our recommendations, we continue to believe that a system of record should include all entities it is designed to track and that asset searches should be routinely performed to ensure that all subsidiary assets are properly accounted for.

The FDIC Audit Committee has requested additional information related to these matters from the OIG. Such information will be provided at an upcoming Audit Committee meeting.

FDIC's Position in Securitizations and Equity Partnerships Remains Substantial

The OIG helps ensure that the FDIC's interests in securitizations and equity partnerships are adequately protected and that the related entities are performing satis-

factorily under the various agreements.

At the RTC's sunset date, the FDIC inherited a total of 72 securitization transactions with an initial credit reserve balance of \$7.8 billion. As of March 25, 2000, the FDIC reported that 39 active securitizations (a decrease of approximately 9 percent from September 25, 1999) with a credit reserve balance of \$1.9 billion (down about 18 percent also from September 25, 1999) remained in its inventory. A securitization involves selling securities that are primarily collateralized by various types of real estate loans to investors. To sell large amounts of loans most efficiently and obtain the greatest financial benefit, receivership loans are pooled together as collateral to back securities sold to investors in the secondary market. This process results in mortgage-backed securities, or pass-through certificates.

The FDIC assumed 42 equity partnerships (which does not include the Judgments, Deficiencies, and Charge-offs Program) with assets having an original book value of \$9 billion from the RTC. As of February 29, 2000, the FDIC reported that 35 equity partnership agreements with assets having a book value of about \$422 million remained in its inventory. Underlying assets include sub- and non-performing mortgage loans and owned real estate. The Corporation has a limited ownership interest in the equity partnerships, which are set up so that the private-sector party that holds the general ownership interest is responsible for disposing of the assets.

During the current reporting period we completed five audits that focused on the roles, responsibilities, and effectiveness of servicers, trustees, and the FDIC in equity partnerships. These audits resulted in questioned costs of \$1.2 million.

Audits of Equity Partnership Servicer AMRESKO Result in over \$1 Million in Questioned Costs

We conducted three audits this semiannual period of AMRESKO Management's servicing of RTC Mortgage Trusts 1993-N3, 1994-N1, and 1994-N2 (Trusts). We concluded that AMRESKO accurately accounted for and reported the Trusts' income. However, we questioned fees paid to affiliates, servicing fees, investor expenses, and miscellaneous expenses that AMRESKO charged to the Trust. As a result, we questioned costs of \$1.1 million, which represents the FDIC's 51-percent partnership share of unallowable expenses that we identified.

Prior to these three audits, we issued one other report on AMRESKO in August 1999 where we questioned an additional \$1.2 million. In total, we have identified \$2.4 million (rounded) in questioned costs for AMRESKO's servicing activities.

Future audit areas will include the claims review process for securitized transactions and whether the FDIC has received its share of residual interest payments under the settlement and workout asset team program. As discussed later in this report, in keeping with the spirit of the Government Performance and Results Act, current and future OIG work is intended to aid DRR in accomplishing its goals, such as strengthening its oversight of securitization transactions, as outlined in its strategic plan.

OIG Work Results in Joint Investigative Cases That May Recover Millions of Dollars
The OIG continued to coordinate closely with DRR both at headquarters and the field offices on investigations of suspected criminal activity involving court-ordered restitution and other debts that are owed to the FDIC as a result of the takeover of failed banks and thrifts. As noted in previous semiannual reports, the

court-ordered restitution is the result of criminal convictions stemming from schemes to defraud federally insured institutions that have resulted in losses to the FDIC. As of March 31, 2000, a total of \$1.1 billion is due as a result of outstanding criminal restitution orders.

Additionally, the FDIC is continuing to attempt to collect debts it is owed as a result of loans originated by financial institutions prior to their failure. The OIG's investigative work in these cases is undertaken if there are indications that the debtors may have engaged in criminal activity in their interactions with the FDIC. Some of these cases involve false statements and elaborate schemes to conceal assets, including illegal transfers to others. By pursuing criminal prosecution of these individuals, we can help maximize recoveries for the FDIC.

Since October 1999, the OIG has opened 13 new cases that are being coordinated with DRR and involve a total of over \$87 million in outstanding restitution orders or other types of debt. At the end of the period we had 64 such investigations that were ongoing. The subject of one of these investigations was indicted during the period and two subjects of another investigation who had previously claimed to be insolvent repaid the FDIC over \$6.5 million in indebtedness (see Investigations section of this report).

Managing Information Technology

According to the Corporation's Information Technology Strategic Plan for 1998-2003, IT is critical to the FDIC's success and can be leveraged to support its business goals. The Corporation is focusing its efforts on key business processes that are most fundamental to the Corporation's success and is working to improve these processes. At the same time it is seeking to identify where and how technology can be used to support

these efforts and better support the Corporation and its customers.

The Strategic Plan contains six key goals in the IT area: Improve Customer Satisfaction with Application Systems; Reduce Corporate Costs Through the Use of Technology; Manage Information for the Corporation; Provide an IT Infrastructure That Works Everywhere, All the Time; Improve the Efficiency and Effectiveness of IT Management; and Fix the Year 2000 Problem. Accomplishing these goals efficiently and effectively requires significant expenditures of funds and wise decision-making and oversight on the part of FDIC managers. As discussed earlier in this report, the Corporation can take great pride in having successfully achieved the last of these—fixing the Y2K problem. It continues to devote resources to the other five goals. The Corporation invested approximately \$217 million in IT resources during calendar year 1999. The FDIC's IT budget for 2000 is approximately \$204 million.

OIG's Information Technology Work

The OIG's work in the IT area is conducted with a view toward the goals the Corporation is trying to achieve. As discussed earlier, a principal focus of our work related to IT over the past 3 years was in connection with the Corporation's Y2K efforts. Our other IT work generally focuses on systems development efforts; specific application reviews; computer services and security; and planning, procurement, and administration. During the reporting period we issued the results of work in several of these areas, as described below.

IT Strategic Planning

The OIG analyzed the Corporation's IT strategic planning carried out in 1999 and issued a comprehensive report that evaluated the effectiveness of the planning process and practices related to acquiring, developing, and managing IT resources.

The FDIC's IT strategic planning process has been evolving and improving since 1996 when the Corporation established the planning structure and process currently in use. The FDIC continued to implement significant improvements to its strategic IT planning process and practices during 1999. For the first time since its establishment in 1996, the Technical Committee was successful in developing a proposed IT budget that prioritized discretionary spending from a corporate perspective. That is, rather than each program office performing IT planning from a divisional or office perspective, the Technical Committee focused on prioritizing projects from a corporate perspective. Prioritizing IT investments has been recognized as a best practice of leading organizations and is a key tenet of recent IT legislation. The Technical Committee also developed a formal strategic IT direction with each FDIC division and began using a post-implementation review program to assess the quality of its system development projects and improve overall IT management.

Although the FDIC has made meaningful progress in selecting, managing, and evaluating its IT investments from a corporate perspective, our review identified opportunities for further improvement. Specifically, we propose that more attention to long-range strategic planning would allow the Technical Committee to consider alternative solutions to the FDIC's IT needs and result in a more substantive evaluation of IT spending. We acknowledged that planned control improvements to better control IT resource reallocations would help ensure that IT spending is based on corporate, rather than divisional, priorities.

In addition, we suggested that improvements in how the Division of Information Resources Management (DIRM) categorizes its IT investments would result in a more strategically focused IT budget that

ensures IT spending is prioritized from a corporate perspective. Providing the Technical Committee with additional time and information during the planning process can also improve planning and evaluation of IT investments categorized as "Other Development." Approximately \$12 million budgeted for Other Development initiatives for 2000 were not evaluated by the Technical Committee.

While the FDIC established formal strategic IT goals and objectives in the FDIC IT Strategic Plan, it needed to better measure its performance in accomplishing such goals and objectives. DIRM had not developed an ongoing mechanism for reporting overall IT performance information to the IT Council or Technical Committee. In addition, the FDIC was not tracking or reporting total life cycle costs on individual IT projects. Accordingly, it was not possible for the FDIC to compare actual costs and benefits with those estimated at the time a project was approved. Measuring performance against established goals and objectives is a fundamental principle of the Government Performance and Results Act. Performance measurement information is critical for determining whether the FDIC's IT investments deliver promised benefits and meet the business goals and objectives of the Corporation. Performance measurement information can also serve as an early indicator of potential problems and encourages managerial accountability by linking information about program outcomes to established goals.

Finally, we identified several opportunities for the FDIC to improve its post-implementation review process.

Corporate Human Resources Information System

Human resources administration encompasses a wide range of functions related to the management of personnel from the time a prospective employee applies for a position

until the time that the employee leaves the Corporation. It includes establishing policies and procedures related to the recruitment, employment, classification, training, management, promotion, and retirement of personnel. Human resources administration also includes the collection and maintenance of the data related to the employment process.

During the reporting period we completed an audit of the initial planning and procurement phases of the Corporate Human Resources Information System (CHRIS) development project. The CHRIS project was initiated to develop an integrated, automated system that would support core human resources business functions performed by the Division of Administration's (DOA) Personnel Services Branch. The cost estimate for CHRIS development as of March 31, 2000 was \$15.7 million. The FDIC expects to fully implement CHRIS by the fourth quarter of 2003 to consolidate the FDIC's human resources information systems.

Throughout the project's development, the OIG will continue to provide proactive audit coverage and provide FDIC management with suggestions and recommendations regarding the project. Our overall audit objectives are to determine whether (1) CHRIS development is adhering to established and generally accepted system development life cycle procedures and (2) system deliverables satisfy user requirements in a cost-effective and timely manner. Our first audit report focused on the project's early development activities, including initial project planning and the award of software and services contracts to support CHRIS. Our audit results were very positive.

The CHRIS project team determined that the current human resources systems were cumbersome, technologically outdated, and unable to support the integration of the large volume of data needed to manage the

Corporation's workforce. The CHRIS team developed a cost-benefit analysis to determine the most cost-beneficial course of action for the FDIC in developing an integrated CHRIS. Our review supports the CHRIS project team's recommendation to acquire commercial off-the-shelf software to support its human resources business functions as a reasonable and valid decision resulting from the cost-benefit analysis process. Further, the solicitation and award process for the implementation of CHRIS was well supported and followed FDIC procurement policies.

OIG Reviews DOS Tracking Systems

The OIG completed a review of DOS's tracking systems for examination scheduling and completion, ratings, and examination results. DOS officials requested the OIG's assistance in determining whether these systems were addressing the needs of headquarters, regional, and field personnel; determining the extent and impact of regional and field development of supplemental systems on DOS's national systems; and identifying experiences gained through such development that could benefit development of national systems, such as the redesign of the Banking Information Tracking System.

Our review determined that current systems generally meet DOS headquarters needs but that field personnel needed supplemental systems to effectively perform their mission. We did not identify any significant duplication of field system development, nor had field systems negatively impacted data accuracy or completeness of national systems data. In addition, the field systems identified generally met the needs of users. We did, however, identify opportunities to further enhance the development, operation, and maintenance of DOS field systems. We recommended that DOS develop a charter for its regional office management information group to ensure effective

communication regarding current and planned systems and initiatives. In addition, we recommended that field offices be represented at regional office management information group meetings. We also recommended that DOS regional and field personnel communicate with their Division of Information Resources Management counterparts during the planning and development of application systems to ensure that developed products are compatible with the FDIC's system architecture. Finally, in the interest of ensuring data integrity, we recommended that DOS data stewards identify and review undefined data codes contained in DOS tracking systems.

Data Integrity Controls for Selected DRR Systems

The FDIC's DRR is responsible for the management and disposition of assets acquired from failed insured financial institutions. As discussed in the previous Major Issue, asset levels have been reduced significantly in each of the past 4 years. This can be attributed in large part to DRR's effective disposal program and to the health of the banking industry, which has resulted in very few assets being added to DRR's inventory of assets in liquidation.

The OIG conducted a review that focused on data integrity controls for selected systems used by DRR to manage assets of failed institutions, including owned real estate, loans, and subsidiaries. These systems are used by the Corporation to measure performance under the Government Performance and Results Act.

Systems supporting DRR functions include the National Processing System (NPS), Credit Notation System, Owned Real Estate System, and the Subsidiaries Management Information Network. NPS, a mainframe-based system, is jointly owned by DRR and the Division of Finance and is the system of record for financial informa-

tion pertaining to assets of failed institutions controlled and serviced by the FDIC.

To better ensure data integrity, we recommended that DRR establish more effective controls, including detailed data integrity criteria for the NPS and other critical DRR systems of record. DRR can also improve data integrity by developing and communicating a more comprehensive definition of data steward responsibilities and ensuring effective oversight for the data steward self-certification process. In addition, implementing better error prevention and correction strategies would serve to improve DRR data.

Ensuring Sound Controls and Oversight of Contracting Activities

The FDIC contracts with the private sector as necessary to accomplish its mission. The Corporation is responsible for ensuring that it is receiving the goods and services it is paying for and that it has sufficient controls over contractor billings to help prevent fraud and abuse. To accomplish this, the Corporation must be diligent in its contract oversight so that it can pursue claims against contractors, which can be impaired if the FDIC is found to be at fault for lapses in its own oversight of the contractors' activities.

Contractors assist the FDIC in many areas including legal matters, property management, loan servicing, asset management, IT, and financial services. Projections of year 2000 non-legal contract awards and purchases total 3,000 actions valued at approximately \$230 million. One of the most active areas of contracting in the Corporation regards IT. As of March 31, 2000, there were more than 375 active information resources management contracts valued at approximately \$420 million that had been awarded in headquarters. Approximately \$220 million of

this expenditure authority for active contracts had been spent and \$200 million remained to be used.

The OIG has continued to focus on auditing contracts and agreements and is focusing considerable audit attention on the Corporation's IT service contracts. The OIG currently has five ongoing audits of almost \$107 million in billings paid to IT service contractors. The purpose of these audits is to determine whether billings were allowable and supportable. For four of the five contractors under audit, the FDIC procured IT services from vendors that were pre-qualified under the General Services Administration Federal Supply Service's IT Multiple Award Schedule program.

Evaluation of MCI Voice and Video Contract Results in \$2.2 Million in Funds Put to Better Use

In light of increasing competition in the telecommunications industry, the OIG initiated a series of reviews of the Corporation's contract with MCI WorldCom (MCI) for voice and video services to determine if the FDIC was obtaining the best possible competitive price. These reviews include (1) an evaluation of the contract price warranty clause, (2) participation in interdivisional task force initiatives to analyze voice and data pricing, (3) an evaluation of historical contract compliance, and (4) an evaluation of the efficiency and effectiveness of the FDIC's contract monitoring efforts. These last two reviews are ongoing.

The FDIC awarded the voice and video contract to MCI in late 1996. The contract included a price warranty clause that required MCI to adjust contract pricing each option year to match pricing offered to other MCI customers under General Services Administration (GSA) contracts. The Corporation was entering option year 3 of the contract at the outset of our review.

OIG/OICM Brief DOA on Contracting Oversight

On March 29, 2000, the OIG and the Office of Internal Control Management (OICM) co-presented a briefing to the Division of Administration (DOA) regarding contracting oversight, which has been the focus of 64 percent (18 out of 28) of the DOA audits over the last 2 years. Messages from both the OIG and OICM were similar on many issues, such as the need for improving the process of obtaining background investigations for contractors and clarifying statements of work to define tasks, requirements, and contract deliverables.

Other items discussed included the OIG's work in the information technology service contract area, an important focus at present. Related issues included the use of unauthorized subcontractors, rate variances with the General Services Administration (GSA) schedule (the FDIC often uses delivery orders under GSA contracts to obtain its information technology service contracts), and employees who did not meet minimum GSA and FDIC experience qualifications.

Update on the OIG's Evaluation of the FDIC Headquarters Copier Administration Program

The Corporation's Acquisition and Corporate Services Branch (ACSB) expects savings of \$1.25 million in 2000 from copier program changes. Our study predicted 5-year savings of between \$6.1 and \$6.5 million. ACSB has estimated that actual 5-year savings will approach \$6.3 million. We raised similar issues for two regional offices. The San Francisco Regional Office is in the process of reassessing its copier program as part of its efforts to lease new office space, and the Dallas Regional Office also intends to reassess its copier program in the near future.

In September 1999, MCI certified that its pricing was in compliance with the terms of the price warranty. During our review of the contract, we found that MCI's long distance voice prices proposed for option year 3 of the contract did not comply with the price warranty in that MCI's pricing for the FDIC was not competitive with prices offered to other MCI customers under the GSA contract. We also discussed with DOA the reasonableness of a surcharge that MCI was billing for intrastate calls. On March 13, 2000, MCI and the FDIC executed a modification to the contract wherein MCI agreed to provide GSA-contract pricing for outbound, inbound, and calling card calls. Further, MCI agreed to eliminate the surcharge for intrastate calls. By effecting these changes, we estimated that the FDIC would save \$2.18 million over the remaining 21 months of the contract, a program savings of 47 percent.

We also participated in two interdivisional task forces that included DOA, DIRM, and the OIG to evaluate voice and data pricing under the GSA contract. We presented this information to DOA for its use in negotiating new pricing with MCI.

Addressing Human Capital Issues

In past semiannual reports we have cited the changing environment at the FDIC as a major issue facing the Corporation. We have noted that since 1994, as the work emanating from the banking and thrift crises has declined and continued consolidation of the financial services industry has occurred, the FDIC has accordingly reduced its workforce substantially. The workforce has fallen from a high of about 15,600 in mid-1992 to 7,177 as of March 31, 2000. FDIC staffing is expected to decline to approximately 6,549 positions by the end of 2000, down from the 7,265 positions authorized for the end of 1999. In addition to reductions in the size of

the workforce, as the Corporation's needs have changed, employees have been relocated to best serve those changing needs.

The FDIC has faced staffing shortages in certain critical skill areas owing to the loss of such a high number of staff and strict prohibitions on hiring from 1992 through 1997. Additionally, through the use of employee buyouts, early retirements, and other downsizing activities, the Corporation has lost a number of highly experienced managers and senior technical experts. The Corporation predicts that approximately one of every six remaining FDIC employees will be eligible to retire by year-end 2003. The Corporation has been challenged to conserve and replenish the institutional knowledge and expertise that has guided the organization over the past years.

The Corporation has included developing a strategy to ensure that the next generation of managers and senior professionals is prepared to assume future leadership positions in the FDIC as a 2000 corporate annual performance goal. Additionally, the Corporation's Diversity Strategic Plan has been designed to directly address the challenge of "institutional knowledge and expertise."

During 1999, the focus was on communicating the message of the Diversity Strategic Plan corporate-wide and developing a framework for implementation of the plan. In 2000, the Corporation's focus will be on the initial implementation of the plan's strategies and measuring their effectiveness.

The diversity plan includes proposed actions in six areas:

- Building commitment and developing awareness,
- Enhancing the corporate recruiting program,
- Creating developmental opportunities,

- Enhancing the internal and external selection processes,
- Addressing benefits and workplace issues, and
- Monitoring progress in establishing accountability.

Focusing on the Corporation's Most Important Asset

The Corporation's circumstances are somewhat reflective of conditions government-wide. Comptroller General David Walker from the U.S. General Accounting Office is championing the concept of "human capital," stating at a September 1999 conference sponsored by the National Academy of Public Administration in Washington, D.C.: "The key competitive difference in the 21st century will be people. It will not be process. It will not be technology. It will be people. The stakes are high." In short, according to Walker, the government cannot maximize its resources and accountability without focusing on its most important asset: employees. Walker is urging all agency leaders to take steps to improve their human capital practices.

As a first step, the U.S. General Accounting Office proposes a five-part self-assessment framework:

- **Strategic planning** to establish agency mission, vision, core values, goals, and strategies.
- **Organizational alignment** to integrate human capital strategies with core business processes.
- **Leadership** to foster committed leadership and give continuity through succession planning.
- **Talent** to recruit, hire, develop, and keep appropriately skilled staff.
- **Performance culture** to enable and motivate performance while maintaining accountability and fairness for all employees.

To implement this framework, organizations need information systems

that allow managers to identify skills imbalances and project future needs. Also of importance is that the human capital strategy and workforce planning system are directly linked to the organization's overall strategic and performance plans.

As discussed earlier in this section, to address the changing environment at the FDIC, the Corporation has begun taking a closer look at its approach to doing business. With this approach, the Corporation is looking upon human capital as a corporate-wide issue and is working to design associated strategies and practices to directly support the achievement of its mission, strategic goals, and core values. The FDIC, as well as other federal agencies, may find it necessary to modernize its human capital policies and practices by placing additional focus on employees and aligning its "people policies." Designing, implementing, and maintaining effective human capital strategies are seen as critical to improving performance and accountability. With that in mind, over the next few months the OIG will initiate work in this area to assist the Corporation in identifying and addressing its human capital concerns.

OIG Review of Controls over Confidential Information

During the reporting period we completed an evaluation review that touched on a human capital-related issue. At the request of corporate management, we examined internal controls over confidential information collected and generated during the application process in the Personnel Services Branch in Washington. We identified control techniques in place and being implemented that provide reasonable assurance that the confidentiality of information collected and generated during the application process is maintained. In addition to the control techniques already in place, the Corporation took steps during our review to improve the

security over confidential information.

We did, however, identify possible situations that could have an adverse impact on the Corporation's ability to keep information confidential. To better ensure security over confidential information, we made a number of recommendations related to security walk-throughs, employee reminders, written procedures, system controls, and access to confidential applicant information. Management agreed with all of our suggestions. The positive response we received to our draft report is indicative of management's support and commitment to the implementation of internal controls that will help protect confidential information.

Establishing Goals and Measuring Results

The Government Performance and Results Act (Results Act) of 1993 was enacted to improve the efficiency, effectiveness, and accountability of federal programs by establishing a system for setting goals, measuring performance, and reporting on accomplishments. Specifically, the Results Act requires most federal agencies, including the FDIC, to prepare a strategic plan that broadly defines the agencies' 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 Corporation's strategic plan and annual performance plan lay out the agency's mission and vision and articulate goals and objectives for the FDIC's three major program areas: Insurance, Supervision, and Receivership Management. The plans focus on four strategic results that define desired outcomes identified for each program area. The four strategic results are: (1) Insured Depositors Are Protected from Loss Without Recourse to Taxpayer Funding, (2) Insured Depository

Institutions Are Safe and Sound, (3) Consumers' Rights Are Protected and FDIC-Supervised Institutions Invest in Their Communities, and (4) Recovery to Creditors of Receiverships Is Achieved. Through its annual performance reports, the FDIC will be accountable for reporting actual performance and achieving these strategic results, which are closely linked to the major issues discussed in this semiannual report.

The Corporation has made significant progress in implementing the Results Act and will continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, and establishing processes to verify and validate reported performance data. The FDIC is committed to fulfilling both the requirements of the Results Act and congressional expectations that the plans clearly inform the Congress and the public of the performance goals for the FDIC's major programs and activities, including how the agency will accomplish its goals and measure the results.

OIG Formulates Results Act Review Plan

On October 7, 1998, the Congressional House Leadership sent a letter to the Inspectors General of 24 executive agencies requesting that they develop and implement a plan for reviewing their agencies' Results Act activities. The Results Act review plan would be submitted as part of the OIG's semiannual reports to the Congress (and updated at least annually thereafter) and would examine (1) agency efforts to develop and use performance measures for determining progress toward achieving performance goals and program outcomes described in their annual performance plan and (2) verification and validation of selected data sources and information collection and accounting systems that support Results Act plans and reports.

Findings and recommendations from Results Act reviews would be included in each subsequent semi-annual report. The Congress attaches great importance to effective implementation of the Results Act and believes that Inspectors General have an important role to play in informing agency heads and the Congress on a wide range of issues concerning efforts to implement the Results Act.

OIG's Results Act Review Plan

The FDIC OIG is fully committed to taking an active role in the Corporation's implementation of the Results Act. We have developed a Results Act review plan to help ensure that the Corporation satisfies the requirements of the Results Act and maintains systems to reliably measure progress toward achieving its strategic and annual performance goals. Our review plan consists of the following three integrated strategies:

- **Linking Planned Reviews to the Results Act.** We will link planned reviews to corporate strategic goals and annual performance goals and provide appropriate Results Act coverage through audits and evaluations. As part of this strategy, the OIG has established specific goals in its own annual performance plan to demonstrate how the OIG reviews link to corporate strategic goals.
- **Targeted Verification Reviews.** We will maintain a program of independent reviews to evaluate the adequacy and reliability of selected information systems and data supporting FDIC performance reports. The OIG has developed a standard work program to conduct these evaluations.
- **Advisory Comments.** We will continue our practice of providing advisory comments to the Corporation regarding their update or cyclical preparation of strategic and annual performance plans and reports.

Several examples of OIG results during the reporting period that are linked to Results Act issues and concepts follow:

- In our work on the FDIC's strategic planning for IT resources, we underscored the need for the Corporation's IT investments to directly support the accomplishment of its goals under the Results Act and made several recommendations related to better measuring and reporting such information.
- Our review of data integrity controls for DRR systems recommended that the division establish more effective controls for its systems of record that are relied upon for reporting results against the Corporation's performance plan.
- As part of our audit work in the area of the FDIC's accounts payable operations, we determined that the FDIC had taken steps to prepare for the necessary Results Act reporting requirements related to accounts payable activities to be reported in March 2000.

Targeted Verification Review of the Division of Compliance and Consumer Affairs' Reporting of Performance Results

We completed an evaluation of the DCA's reporting of compliance and CRA examinations and community affairs and outreach activities under the Results Act. The objective of our review was to determine the adequacy and reliability of the information system and data supporting DCA's performance reporting of compliance and CRA examinations and community affairs and outreach activities.

We found that DCA had established goals, targets, and performance indicators for compliance and CRA examinations and community affairs and outreach activities. Further, DCA had included information in the Corporation's quarterly performance reports to show its progress in meeting these goals and objectives. DCA

had also identified the system and information sources used to validate and verify performance data as required by the Results Act. DCA used the "Bank Start Date" in the Compliance Statistical System to determine whether its targeted performance levels for compliance and CRA examinations were achieved during each of the quarters in 1998. We provided assurance that the Bank Start Date data element in the Compliance Statistical System was a reliable source for reporting examination activities in the FDIC's quarterly performance reports.

With regard to the community affairs and outreach goals, we found differences between the number of events and activities reported by headquarters in the quarterly performance reports and those reported by the regional community affairs officers. We found that most of the community affairs and outreach activities reported in 1998 were supported by an ample amount of documentation. However, the numbers of participants in the activities and the results of the events were not always sufficiently supported. We made four recommendations related to maintaining adequate documentation and accurate reporting to address these concerns.

The Director, DCA, agreed with three of our four recommendations. For the fourth, we believe existing controls will serve to effectively address our concern.

OIG Reviews Corporate Performance Plans

During this reporting period, the OIG also reviewed and provided advisory comments to management on the FDIC's *2000 Performance Plan*. We also reviewed and provided comments on the FDIC's initial annual *Program Performance Report* covering calendar year 1999 that, under the Results Act, was submitted to the President and the Congress on March 31, 2000. For future annual cycles, the OIG will continue to

advise management regarding the Corporation's Results Act plans and reports undergoing development or revision.

The OIG will continue to develop and refine its integrated oversight strategy so that the OIG's Results Act-related efforts fully conform to the spirit and intent of the Act. The OIG will also continue to monitor and review legislation proposed in the Congress to amend the Results Act and will actively participate through the President's Council on Integrity and Efficiency and the interagency groups it sponsors to refine appropriate OIG Results Act roles, responsibilities, and activities.

GAO Continues to Convey FDIC Financial Statement Audit Work to OIG

The process of transferring full responsibility for the FDIC annual financial statement audit from the U.S. General Accounting Office (GAO) to the FDIC OIG continued this reporting period. Within the OIG, this task is shared between the Washington and Dallas offices. Whereas the OIG Washington staff is responsible for cash, investments, and expenses, the OIG Dallas staff has assumed complete responsibility for auditing net receivables from failed banks and thrifts, FDIC's loan loss reserve process, the methodology and process for the valuation of receivership assets, internal controls over receivership receipts and disbursements, and FDIC's oversight of contractors who manage and dispose of receivership assets for the FDIC. The GAO currently relies on the OIG's work for the above-mentioned portions of the FDIC's financial statement audit, and the OIG remains committed to working toward its goal of obtaining sole responsibility for this audit. The OIG will continue to work with the GAO to seek the legislative change necessary to accomplish this shift in responsibility.

As in previous years, the Inspectors General, including the FDIC's Inspector General, will certify the accuracy of their agency's fiscal year financial data included in the government's consolidated financial audit.

FDIC's Energy Management and Conservation Efforts at Its Headquarters Facilities

Since the mid-1970s, energy management and conservation have been priorities in the federal sector as a result of escalating energy costs. In recent months, the Clinton administration announced its intent to have government agencies focus attention on this area. To assist the Corporation in its energy conservation endeavors, the OIG initiated a review to assess the Corporation's energy management and conservation efforts at the Corporation's owned headquarters buildings.

We found that the Corporation had implemented a number of capital improvements since at least 1989 to enhance energy management and conservation at headquarters buildings that it owns. These improvements have resulted in increased energy efficiency and water conservation. Management is continuing its improvements and has new projects in process, including further facilities enhancements and a new recycling directive. Our review provided the following additional ideas:

1. Create an energy management and conservation vision at the FDIC,
2. Foster employee awareness,
3. Budget and measure enhancements,
4. Plan for energy efficiency,
5. Lease energy-efficient buildings, and
6. Assess recycling efforts.

Management's response to our report indicated that it is committed to developing a model Energy Management Program. Already, the Corporation has (1) established a performance goal in its Annual Performance Plan for implementation of an Energy Conservation Program and (2) taken steps to obtain the assistance of the Department of Energy's Federal Energy Management Program.

Investigations

Investigative Statistics

Judicial Actions

Arrests	5
Indictments/Informations	12
Convictions	9

Actions Involving FDIC Employees as a Result of Investigations

Reprimand	1
Suspensions	2
Warnings	6

Actions Involving FDIC Contractors as a Result of Investigations

Debarment	1
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OIG Investigations Resulted in

Fines of	\$ 1,212,820
Restitution of	8,328,366
Monetary Recoveries of	6,540,272
Total	\$16,081,458

Cases Referred to the

Department of Justice (U.S. Attorney)	57
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Referrals to

FDIC Management	8
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OIG Cases Conducted Jointly with Other Agencies

47

The Office of Investigations (OI) is responsible for carrying out the investigative mission of the OIG. Staffed with agents in Washington; D.C.; Atlanta; Dallas; Chicago; and San Francisco; OI conducts investigations of alleged criminal or otherwise prohibited activities impacting the FDIC and its programs. As is the case with most OIG offices, OI agents exercise full law enforcement powers as special deputy marshals under a blanket deputation agreement with the Department of Justice. OI's main focus is on investigating criminal activity that may harm, or threaten to harm, the operations or the integrity of the FDIC and its programs. In pursuing these cases, our 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 the recovery of its losses. Another consideration in dedicating resources to these cases is the need to pursue appropriate criminal penalties not only to punish the offender but also to deter others from participating in similar crimes.

Joint Efforts

The OIG works closely with U.S. Attorneys' Offices throughout the country in attempting to bring to justice individuals who have defrauded the FDIC. The prosecutive skills and outstanding direction provided by the Assistant U.S. Attorneys with whom we work are critical to our success. The results we are reporting for the last 6 months reflect the efforts of U.S. Attorneys' Offices in the District of Massachusetts, the Northern District of Illinois, the Southern District of Ohio, the Southern District of West Virginia, the Middle District of North Carolina, the Northern District of Georgia, the Northern District of Texas, and the Southern District of Texas.

The support and cooperation among other law enforcement agencies are also key ingredients for success in

Law enforcement
Justice

the investigative community. We frequently “partner” with the Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS), Secret Service, and other law enforcement agencies in conducting investigations of joint interest.

Results

Over the last 6 months, OI opened 37 new cases and closed 32 cases, leaving 162 cases underway at the end of the period. Our work during the period led to either indictments or criminal charges against 12 individuals. Nine defendants were convicted during the period, and criminal charges remained pending against 12 individuals as of the end of the reporting period. Also, fines, restitution, and monetary recoveries stemming from our cases totaled over \$16 million. Our investigations involving FDIC employees resulted in suspensions of two employees, the reprimand of one employee, and warnings to six employees. In addition, one FDIC contractor was debarred. The following are highlights of some of the results from our investigative activity over the last 6 months.

Fraud Arising at or Impacting Financial Institutions

Two Bank Officials Charged with Conspiracy to Obstruct a Bank Examination

The former senior executive vice president of the now defunct First National Bank of Keystone, Keystone, West Virginia, and the former executive vice president of Keystone Mortgage Company, a subsidiary of the bank, were indicted on charges of Conspiracy to Corruptly Obstruct and Attempt to Obstruct the Examination of a Financial Institution by an Agency of the United States. The charges are based on alleged actions by the officials taken after the Office of the Comptroller of the Currency began an examination of the bank that culminated in its closure on September 1, 1999.



FDIC OIG is part of a multi-agency task force that recovered buried bank records related to the now defunct First National Bank of Keystone, Keystone, West Virginia.

These charges stem from an investigation by a multi-agency task force comprised of Special Agents of the FBI, FDIC OIG, IRS, U.S. Postal Inspection Service, and U.S. Department of the Treasury OIG. Among many issues being addressed by the task force is missing bank records. Prior to the indictment, investigators executed a search warrant on property owned by the former senior executive vice president and her husband. The search resulted in the recovery of buried bank records that filled 370 file boxes.

Two Former Executives of Famed Kentucky Horse Farm Found Guilty of Offering \$1.1 Million in Bribes to Bank Director

The former president and the former chief financial officer of Calumet Farm, a famed Lexington, Kentucky, thoroughbred horse farm, were found guilty of four counts of false statements, bribery, conspiracy, and bank fraud. The two defendants were convicted of offering \$1.1 million in bribes to the vice chairman and a director of First City Bancorporation, a failed financial institution, to obtain \$65 million in loans for the financially troubled farm. The charges against the two defendants stemmed from an ongoing joint FBI/OIG investigation into the bank's failure. The U.S. Attorney's Office for the Southern District of Texas prosecuted the case.

As previously reported, an indictment of the two defendants was returned by a Houston, Texas, grand jury in December 1998 but not unsealed until March 1999. The indictment alleged, among other things, that the vice chairman of the bank used his position to facilitate the approval of disbursements of loan proceeds and extensions of credit to Calumet and to frustrate and impede bank officers' attempts to collect from the farm. The vice chairman of the bank continues serving a 22-year prison sentence that was imposed after

two federal trials in 1994 and 1996. Also prosecuted as part of this case was a stable groom who worked for Calumet farms. The stable groom was convicted and sentenced to 5 months in prison for making false statements to a Houston federal grand jury investigating whether the famous thoroughbred stallion, Alydar, was intentionally injured so the horse farm could collect over \$36 million in insurance proceeds.

Three Dallas, Texas, Residents Indicted for Conspiracy to Defraud Comerica Bank

On February 24, 2000, a federal grand jury in Dallas, Texas, returned an indictment against three Dallas residents for conspiracy to defraud the FDIC-insured Comerica Bank.

Two of the individuals were employed as salesmen at an automobile dealership, and the third was employed at a branch of Comerica Bank. This case was jointly investigated by the OIG and the FBI and is being prosecuted by the U.S. Attorney's Office for the Northern District of Texas.

The indictment charges that the three defendants conspired to defraud Comerica Bank by both causing to be submitted and submitting false information to influence the bank to approve car loans under the Community Reinvestment Act Automobile Purchase Loan Program. The program was instituted to help low to moderate income individuals with little or no established credit histories obtain automobile financing. The three defendants are alleged to have falsely represented loan applicants' social security numbers to Comerica Bank and supplied fictitious credit references with the intent to deceive the bank concerning the applicants' credit histories. As described in the indictment, the car salesmen told individuals with poor credit histories that they could obtain financing from Comerica Bank if they would purchase automobiles through them. The salesmen also are alleged

to have submitted loan applications to the bank branch employee that contained certain false information including personal information regarding the applicants, credit references, and social security numbers. The defendants are also charged with falsely inflating the purchase price of automobiles for the purpose of deceiving the bank about the amount of the down payment, if any, made by applicants. In fact, a majority of the cars were actually 100-percent financed. Additionally, the three defendants are charged with retaining down payments for personal use in cases where such payments were, in fact, made by loan applicants.

Georgia Resident Pleads Guilty to Bank Fraud for Depositing Counterfeit Checks Totaling \$190,000 and Later Withdrawing the Funds

Following an indictment on November 26, 1999, a resident of Georgia and a customer of Security State Bank, an open FDIC-insured bank in Canton, Georgia, pleaded guilty to bank fraud on March 3, 2000. Aided and abetted by others, the defendant had deposited two \$95,000 checks that he knew to be counterfeit into an account at the bank and later withdrew the funds. This case was jointly investigated by the OIG and FBI and is being prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.

Management and Disposition of Assets of Failed Financial Institutions

Individual Charged with Making False Statements and Material Omissions to Banks and the FDIC

An individual was charged with making false statements and material omissions to five banks and the FDIC in connection with various loans. One of the loans was a \$6.25 million loan from the Bank of New England to finance the purchase of a hotel in Salem, Massachusetts. The defendant and another individual are owners of the hotel through a trust com-

pany, which became indebted to the FDIC on a nonperforming note that the Corporation acquired as a result of the failure of the Bank of New England.

Among the false statements the defendant is alleged to have made were that he (1) owned his home when, in fact, he had transferred his interest in his home to his wife; (2) had salary, bonuses, and commissions of \$280,000 in 1989 when, in fact, he had no such income that year; and (3) had received no dividends from a partnership in the prior 2 years when, in fact, he had received over \$11,000 in dividends during that period.

The defendant is also charged with concealing and failing to disclose that he had (1) withdrawn over \$200,000 from the accounts of the hotel in weekly checks of \$1,500 payable to the trust; (2) deposited over \$160,000 in tax refunds and bonus checks into an investment account in his wife's name; (3) borrowed \$300,000 from a personal friend; and (4) borrowed, with a partner, \$300,000 from another friend in connection with the purchase of a mall.

This case was jointly investigated by the FBI and OIG and is being prosecuted by the U.S. Attorney's Office of the District of Massachusetts.

Three North Carolina Men Plead Guilty and Are Ordered to Pay Fines and Restitution Totaling over \$7.5 Million

Following their entry of plea agreements with the U.S. Attorney for the Middle District of North Carolina in November 1999, three North Carolina developers were sentenced to pay fines totaling \$212,820 and restitution totaling \$7,243,220. Payment of the restitution was split with \$1.5 million going to the FDIC and the remaining \$5.7 million going to the IRS to resolve tax problems. Additionally, each of the three was sentenced to 24 months' probation and ordered to perform 400 hours of community service.

The plea agreement was the result of a joint FDIC/IRS investigation into allegations that the developers committed tax fraud and provided false financial statements to the former Resolution Trust Corporation (RTC) and an RTC contractor in connection with two nonperforming loans the three had with a failed thrift. Our investigation found the developers were guarantors on two loans totaling \$15.9 million from Empire of America Realty Funding Corporation, a subsidiary of Empire of America Federal Savings Bank, Buffalo, New York. The loans originated in 1988 and 1989 and were to be used for the construction of two apartment complexes.

In 1990, the RTC was appointed conservator of Empire and acquired the two delinquent loans. In early 1991, the developers requested loan modifications that the RTC denied. In late 1991, the developers repurchased their loans for \$9 million from the RTC using a "straw buyer," which is a person or party used to purchase property for another to conceal the identity of the real purchaser. The sale resulted in a loss of over \$6 million. The developers subsequently sold the apartment complexes at a profit of \$8 million and failed to report the gain to the IRS.

The investigation revealed that the developers submitted false financial statements to the RTC that the RTC contractor relied on as a basis for its decision not to pursue the developers' guaranty. The financial statements represented that the developers' net worth was insufficient to recover on the guaranties.

Former FDIC Loan Servicer Pleads Guilty to Bank Fraud and Agrees to Make Restitution of Almost \$700,000

On January 13, 2000, a former loan servicer for the FDIC pleaded guilty to one count of bank fraud and agreed to make restitution of \$693,869. The action was the result of an investigation initiated by the

OIG, and the case is being prosecuted by the U.S. Attorney's Office for the Southern District of Ohio.

The defendant was a loan servicer for a portfolio of mortgage loans made by the former Alpine Savings, Steamboat Springs, Colorado. Prior to being placed into receivership by the RTC in 1990, Alpine had sold 90 percent of its ownership in the loans to six FDIC-insured financial institutions but retained the remaining 10 percent of ownership, including servicing rights. Following Alpine's receivership, the defendant collected monthly mortgage payments directly from borrowers; he forwarded 90 percent of the payments to the six financial institutions and the remaining 10 percent to First Nationwide Mortgage, a master servicer for the FDIC, and provided reports to all seven entities.

Relative to 15 mortgage loans, the investigation disclosed that the defendant failed to forward \$693,869 in loan payoff proceeds he had collected. He covered the theft by continuing to submit monthly payments and reports to the 90-percent owners as if the loans that had been paid off were still active. The OIG investigated the loans at five of the financial institutions; the FBI investigated the loans at the sixth. Although all six institutions are located in different judicial districts and the investigation was coordinated with the U.S. Attorneys' Offices of those districts, it was agreed that the defendant would be charged only in Ohio.

Final Sentencing of Subjects in Bank Fraud Case

During this period two principals related to Advance Bank, F.S.B., Lansing, Illinois, were sentenced, bringing to a conclusion an investigation and prosecution that we previously reported when they were originally charged in 1998. The former chairman of the board at Advance Bancorp, Inc., was sentenced to 18 months of incarceration, 24 months of probation, and fined

\$1 million after earlier pleading guilty to charges of embezzlement and aiding and abetting. The former president at Advance Bank, F.S.B., a wholly owned subsidiary of Advance Bancorp, Inc., was sentenced to 25 months of incarceration and 36 months of probation and ordered to make restitution of \$1 million as a result of her guilty plea on charges of mail fraud and filing a false federal income tax return.

As previously reported, some of the charges in this case resulted from an investigation that we conducted in concert with the FBI regarding fraudulent conduct against the former RTC. Advance Bank was organized in May 1990 to acquire the deposits and selected assets of Concordia Federal Bank for Savings from the then-RTC. Advance Bank previously was fined \$1.5 million and ordered to pay \$500,000 in restitution.

FDIC Debtors Pay Off FDIC Indebtedness

Following the initiation of an OIG investigation and the issuance of OIG subpoenas for records, two FDIC debtors who had previously claimed to be insolvent made payments to the FDIC for the full principal balance of their indebtedness, which totaled over \$6.5 million. The investigation regarding the financial information previously submitted by the debtors is continuing.

Other Cases

Texas Architect Sentenced for Theft of Public Funds—FDIC Check of over \$85,000

A Houston, Texas, architect/interior designer was sentenced for theft of public funds—specifically, an FDIC check for \$85,146. The defendant was sentenced to 5 years of probation and ordered to pay restitution of \$85,146 and a special assessment of \$100. This case was investigated by the OIG and prosecuted by the U.S. Attorney's Office for the Southern District of Texas, Houston Division.

The January 2000 sentencing followed an indictment in April 1999 and guilty plea in November 1999. According to the indictment, the check in question was intended to be a settlement check from the Corporation to an individual. The check was drawn on an FDIC account by the Federal Home Loan Bank and made payable to the individual's company. The OIG investigation was prompted by allegations that the defendant, after moving into the individual's former business premises, intercepted the check, altered its issuance date, and deposited it into an account he had established at NationsBank. A preliminary review revealed that he then removed the funds from the account through a series of withdrawals.





Keystone, West Virginia

Arial view of location where recovered bank records were buried. Watch for more investigative developments related to the First National Bank of Keystone's failure in future semiannual reports.

OIG Organization

During this reporting period, the OIG focused on strategies to better align our work with the Corporation's priorities. To this end we began developing a long-range audit strategy that will result in audits better linked to the Corporation's major program goals and continued an ongoing period of self-assessment of our internal work processes, products, and working relationships. We also began new initiatives to develop our human capital to ensure that we will have well trained resources with the diversity of skills needed to keep pace with the changing corporate and industry environment. Further, we are ensuring we have the technological tools necessary to achieve our goals. Declaring the OIG to be a "learning organization" and adopting a continuous process of self-assessment and change provides the flexibility needed to assist the Corporation in addressing its priorities and in confronting emerging risks and issues brought on by a rapidly changing industry.

Aligning the OIG with Corporate Priorities

In an effort to more closely align the OIG's work with corporate concerns and priorities, we have begun to critically reexamine our audit universe and reorganize our work where necessary. The OIG's *2000 Audit Plan* currently targets seven distinct audit areas. We are exploring a possible realignment of those audit areas and resources to better link our efforts to the FDIC's stated goals and objectives. The resulting long-range planning document will assist us in better allocating our audit resources to provide optimum coverage of the Corporation's most important programs and functions.

OIG Continues Self-Assessment and the Process of Change

The OIG remains committed to continuously examining our products, services, processes, operations, and working relationships. During this period we evaluated our progress in meeting action plans that were based on issues we identified through earlier customer surveys of corporate officials (i.e., adding value to the Corporation, defining success and accountability, building trust, improving communication, clarifying the OIG's role and message, and increasing flexibility). We then resurveyed our corporate customers in January 2000 to assess the impact of our actions on customer satisfaction.

Action Plans

Based on their action plans, several offices further pursued customer-oriented initiatives. The OIG's Counsel resurveyed OIG staff to ensure that services provided fully met the needs of the staff. The Office of Audits and Office of Congressional Relations and Evaluations made several changes in work processes to improve effectiveness, client satisfaction, and communication. These changes included implementing the use of client satisfaction feedback instruments. Feedback forms are now provided to the auditee or evaluatee at the beginning of the survey or audit/evaluation engagement and with the final audit or evaluation reports. The auditee is asked to rate the OIG on the conduct of the reviews and the quality of reports and to offer comments and suggestions so that we can improve and strengthen our performance in the future. Preliminary response to using the feedback instrument has been positive. To ensure we meet specific corporate needs, the Office of Congressional Relations and Evaluations is expanding the function of entrance conferences to identify

other potential areas for evaluations. In addition, a new System for Tracking Audits and Reports was fully implemented to improve our ability to track audit progress and meet project deadlines. By instituting these new tracking and communication vehicles, we hope to initiate a dialogue and improve relationships across the Corporation regarding our commitment to timeliness and improving the overall quality of the audit and evaluation processes.

In response to our earlier surveys, we also increased our communicative efforts to clarify the OIG role and mission as well as our planned work. During this reporting period, the Inspector General met with top FDIC officials on several occasions. Other OIG executives and managers have also continued meeting with FDIC division heads to explain the OIG's mission and approach and to gain input for future work. OIG staff met with the FDIC's Chief Financial Officer to discuss our audit plan and with other FDIC division heads to further discuss how our audit plan relates to each division. Along with the Director of the Office of Internal Control Management (OICM), the Deputy Inspector General for Audits also recently met with contracting officers throughout the Corporation. He provided both a historical perspective on the OIG's work in the contracting area and a focus on ongoing projects and current issues that the OIG believes warrant contracting officers' attention and oversight. We welcome these opportunities to clarify and communicate our role and the work we plan to do with the Corporation. In this manner we hope to ensure that our work is relevant and adds value to how the FDIC does its business.

Resurvey of Corporate Customers

Following several months of making changes based on our assessments and action plans, we resurveyed our corporate customers in January 2000

to determine the current level of satisfaction with OIG operations and communication. The resurvey revealed that the OIG's efforts over the last months to partner and improve its communications with the FDIC have paid rich dividends. OIG customers reported a greater sense of collaboration and partnership with the OIG and a better understanding of the mission, role, and function of the OIG. We attributed these improvements directly to the increased opportunities to communicate the OIG's role and mission and explain how our work interfaces with the Corporation's priorities. The resurvey also served as a vehicle to identify new issues as well as old issues that need further attention. The OIG will continue to use this survey process to help identify areas for change and improvement in its operations and communications with the Corporation.

OIG Attention to Human Capital

Just as we are highlighting to the Corporation the importance of its human capital, we are making similar efforts to examine and value our own human capital. We are looking at how best to develop and use our staff resources. In addition, we are working on a number of initiatives to ensure we have the right mix of staff and expertise necessary to have a high quality OIG and to respond to a rapidly changing banking environment. We plan to focus even more on the issue of human capital as we go forward with our self-assessment work related to our Learning Organization initiative.

A pilot program has been implemented to develop OIG staff through inter-OIG office rotation. These rotations expose OIG staff to varying approaches to reviews and provide maximum flexibility to use resources in the areas needed. In addition, several staff have been nominated or named to participate in the FDIC's

mentoring programs, and new leader, and aspiring leader programs, and through our intern program, several interns are working part-time. We are also seeking to establish more developmental opportunities for our administrative professional staff. Further, we are examining how our resources are allocated and have initiated a study to examine our training processes and needs. We are also using available technology to both develop new tools and enhance existing tools to help us do our work.

Also, during this period we used our study of OIG workplace diversity issues and the Corporation's diversity plan to develop an OIG diversity statement and a related action plan. In the OIG's diversity statement, the Inspector General endorsed the corporate plan and supported the Chairman's initiative for enhancing the diverse nature of our workforce through the various goals established under the FDIC's Diversity Strategic Plan. Further, he stated a full commitment to implementing within the OIG the Corporation's strategies or similar strategies, where appropriate, for achieving the FDIC's vision and mission on diversity. The OIG Diversity Action Plan relates each OIG action item to both the related FDIC Diversity Plan strategic area and four issues resulting from concerns identified in our own diversity study, which was sent to the House Appropriations Subcommittee on VA, HUD, and Independent Agencies during our last semiannual reporting period. These issues include: (1) developing strategies to overcome racial and gender imbalances where they exist, (2) fostering opportunities to obtain and share knowledge and increase sensitivity about diverse groups, (3) working toward the consistent application of standards, and (4) improving communication among OIG staff.

OIG Internal Activities

Highlights of the OIG's internal activities during the reporting period include the following:

- Completed second external customer survey in January 2000 regarding satisfaction with OIG operations and processes.
- Monitored OIG computer systems, facsimile machines, and other equipment during the FDIC's Y2K "rollover" weekend.
- Submitted Fiscal Year 2001 budget to the House and Senate Subcommittees on VA, HUD, and Independent Agencies, Committee on Appropriations.
- Issued a summary report on the first OIG-wide conference. As reported in our last semiannual report, the conference theme was *OIG 2000-Destination: Excellence*. Building on the OIG's Learning Organization initiative, the conference focused on the OIG's improvement plans for its work products, work processes, and interpersonal relations.
- Launched OIG Diversity Web site to articulate and make readily accessible OIG views of diversity and to call attention to various other diversity issues. The page is linked to the Corporation's Web page and other diversity sites.
- Issued the OIG's *1999 Performance Report*.
- Issued the *OIG's Annual Performance Plan and Internal Resource Management Performance Plan for 2000*, which contains 35 specific annual goals that directly link to the OIG's four strategic goals and related objectives. The goals focus on the core audit, evaluation, and investigative activities; professional advisory services; and external communications with the Chairman, the Congress, and other stakeholders.

- Issued the *OIG 2000 Audit Plan*, outlining planned audits in seven strategic areas: Supervision and Consumer Affairs; Resolutions and Receiverships; Award Administration, and Oversight of Contracts and Agreements; Financial Accountability and Internal Controls; Financial and Management Information Systems; Deposit Insurance; and Corporate Activities and Administration. In formulating the plan, we solicited suggestions from the Audit Committee and each division and office head.
- Completed a quality assurance review of the Office of Investigations and initiated a quality assurance review of the Office of Management and Policy.
- Coordinated the preparation and revision of management control plans for the OIG's accountability units under the Corporation's internal control program.
- Continued OIG participation in interagency Government Performance and Results Act Interest Groups sponsored by the President's Council on Integrity and Efficiency (PCIE) and the U.S. Office of Personnel Management to share ideas and best practices on Results Act implementation.
- Implemented pilot rotational assignments for audit and evaluation staff.
- Initiated an assessment of the changing role of OIG administrative support staff, which will lead to

feedback sessions with supervisors, development of individual development plans, and possible career development opportunities.

- Implemented use of feedback mechanisms to gain input on audit processes and products from the auditee and evaluatee during OIG audits and evaluations.
- The Inspector General initiated multiple meetings with senior FDIC officials to increase corporate understanding of the OIG's role and mission.
- OIG executives and managers initiated meetings with corporate officials to discuss the OIG's *2000 Audit Plan* and other related reviews.
- In November 1999, OIG staff attended the Federal Audit Executive Council's annual conference to exchange ideas relating to audit issues in the millennium with senior audit executives from the Inspector General community and elsewhere in the federal government.
- Attended the 2000 Joint Financial Management Improvement Program annual conference, which addressed various challenges facing the federal financial management community, including responding to ever-changing technology, developing a new generation of government managers, and investing in human capital.

- Continued Electronic Workpaper project to assist us in more efficient and effective maintenance and use of workpapers.
- Issued OIG-wide awards policy.
- The Corporation honored several OIG staff for Y2K contributions.
- Coordinated with the Department of the Treasury and the Federal Reserve Board OIGs to discuss common areas of interest for year 2000 audits as well as specific audits either planned or in progress. Areas of common interest included implementation of the Bank Secrecy Act, underwriting practices, Government Performance and Results Act reporting, and Community Reinvestment Act examinations.
- Office of Audits staff coordinated with General Accounting Office staff to publish an article in the *PCIE Journal of Public Inquiry* on their unique partnership in conducting the FDIC Financial Statement Audit work.

OIG Coordination with and Assistance to FDIC Management

Coordinating with management and providing assistance are important priorities for the OIG. Our work over the past 6-month period in this regard is as follows:

- Participated on a task force with the Division of Administration and the Division of Information Resources Management (DIRM) to help negotiate option year pricing

with MCI and assess whether a particular General Services Administration contracting vehicle would be appropriate for the Corporation's future telecommunication needs. The task force validated the FDIC's contract decision.

- Continued comprehensive, proactive monitoring and advisory services for all phases of the Corporation's Y2K activities, both internal and external, to help ensure a successful transition to Year 2000.
- OIG Y2K staff were recognized in DIRM's 1999 "Yearbook," which is a publication DIRM prepares each year to highlight its major accomplishments and goals. DIRM recognized that the cooperative effort between the OIG audit team and DIRM served to ensure the successful completion of the FDIC's Internal Year 2000 Project with no corporate impact when the year 2000 arrived. DIRM also recognized the long-term positive benefits resulting from the project.
- Participated in the FDIC's Y2K rollover activities.
- In October 1999, issued joint memorandum with the Division of Supervision (DOS) and Legal Division that establishes a broad framework within which the OIG and DOS will cooperate in the OIG's current and future investigations of certain criminal activity in open financial institutions regulated by the FDIC. The memorandum ensures OIG access to the information necessary to discharge

the OIG's responsibility to detect and prevent waste, fraud, and abuse relating to the programs and operations of the FDIC, while respecting the regulatory functions of DOS. Since October 1999, the OIG has been meeting with DOS to establish communications and the coordination of procedures.

- In December 1999, participated in the DOS Regional Director/Assistant Regional Director Conference at Virginia Square, where we discussed important issues of mutual interest, including: providing an overview of our audit activities in DOS and presenting our new audit engagement agreements and feedback forms. The Counsel to the Inspector General and staff from the Office of Investigations, DOS, and the Legal Division addressed the joint memorandum, discussed above, regarding OIG investigations of open bank activities.
- Initiated a follow-up review with OICM to an issue reported in 1998 on the Office of Diversity and Economic Opportunity's (ODEO) complaint processing. The review will assist the Corporation in reviewing issues presented in past Chief Financial Officer Act reports and determining the progress made by ODEO in taking corrective actions.
- Provided advisory comments to management on the FDIC's *1999 Program Performance Report* and *2000 Performance Plan*.
- Participated on corporate working groups, such as the Chairman's Diversity Council and the Alternative Dispute Resolution Steering Committee.
- Met with DOS and Division of Resolutions and Receiverships (DRR) officials to provide updates and share necessary information pertaining to our ongoing investigation of the failure of the First National Bank of Keystone. As a part of these briefings, OIG agents shared their observations from the Keystone investigation relating to potential indicators of fraud and obstruction, for future reference during FDIC examinations and closings.
- Continued our efforts to coordinate with DRR in connection with our criminal investigations of fraud and concealment of assets involving court-ordered restitution and other debts that are owed to the FDIC as a result of the takeover of failed banks and thrifts. Since October 1999, opened 13 new cases in coordination with DRR involving a total of over \$87 million in outstanding restitution orders and other types of debt.
- Initiated an annual review of the Corporation's Internal Control and Risk Management Program.
- Participated with OICM in a joint presentation to contracting officers sharing views on contracting risks and proper controls to guard against those risks.

The OIG played a major part in the following activities in support of the Inspector General's role as Vice Chair of the President's Council on Integrity and Efficiency (PCIE):

- Directed the development of a comprehensive Strategic Plan containing goals, objectives, and strategies for the work of the PCIE and the Executive Council on Integrity and Efficiency (ECIE).
- Coordinated a working group to redesign the Inspector General Web site to include more PCIE/ECIE-related business information.
- Attended the Inspectors General retreat addressing "The Evolving Role of the Inspector General in the New Millennium."
- Issued reports or surveys related to Non-tax Delinquent Debt, Inspections and Evaluations Offices within the Inspector General community, and Audit and Management Best Practices.
- Coordinated PCIE responses to issues such as the Webster Report on Law Enforcement and the Association of Government Accountants' Oversight Survey.
- Provided comments and information on issues affecting the PCIE/ECIE such as law enforcement authority, training academy funding and support, independence of OIGs, and other matters.
- Submitted requests, coordinated meetings, and obtained information from the OIGs to respond to several congressional requests for information.

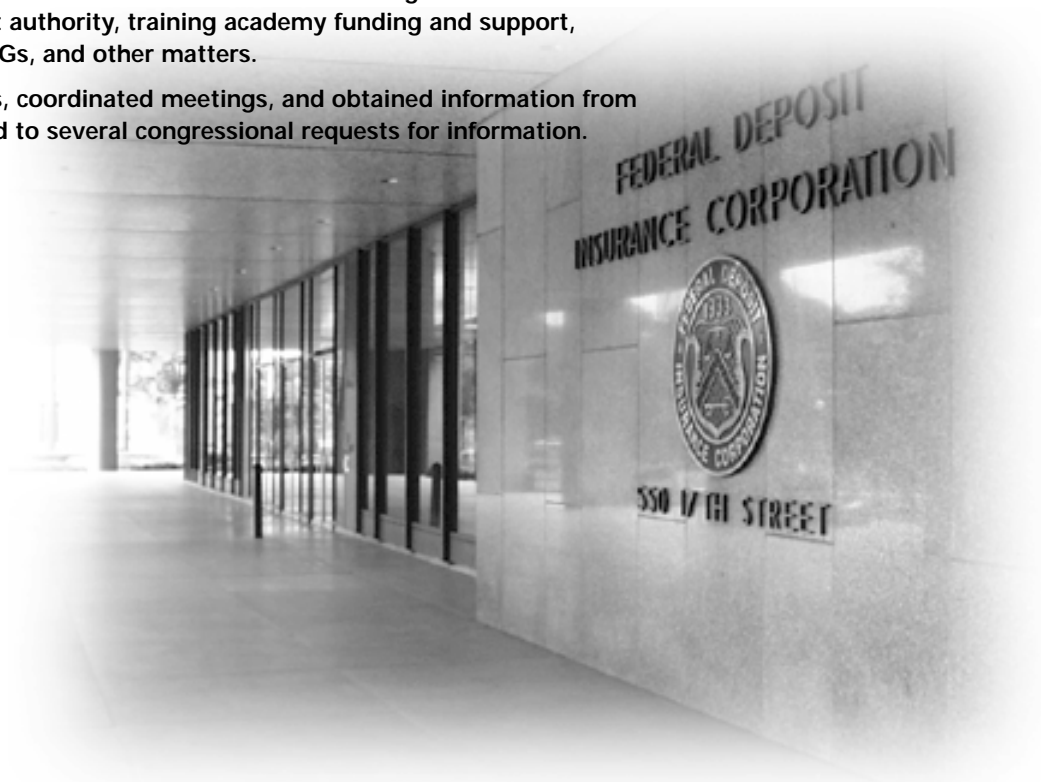


Table 1:
Significant OIG Achievements
October 1999 – March 2000

Audit Reports Issued	19
Audit-Related Memorandums Issued *	11
Evaluation Reports Issued	4
Evaluation-Related Correspondence Issued *	4
Questioned Costs and Funds Put to Better Use from Audit and Evaluation Reports	\$3.5 million
Congressional Testimony Submitted for the Record	2
Investigations Opened	37
Investigations Closed	32
OIG Subpoenas Issued	19
Convictions	9
Fines, Restitution, and Monetary Recoveries	\$16 million
Hotline Allegations Referred	22
Allegations Substantiated	15
Allegations Closed	36
Proposed or Existing Regulations and Legislation Reviewed	9
Proposed FDIC Policies Reviewed	12
Responses to Requests and Appeals Under the Freedom of Information Act and Privacy Act	18

*These memorandums and other correspondence relate to OIG work that did not result in formally issued audit or evaluation reports.

Table 1

Table 2:
Nonmonetary Recommendations

April 1997 – September 1997	110
October 1997 – March 1998	52
April 1998 – September 1998	77
October 1998 – March 1999	133
April 1999 – September 1999	66
October 1999 – March 2000	68

Table 2

Table 3:

**OIG Review of Proposed or Existing Legislation and Regulations
October 1, 1999 – March 31, 2000**

OIG Counsel has monitored the progress of major banking legislation, specifically, the Gramm-Leach-Bliley Act, which was enacted November 12, 1999. This law has created the most sweeping changes in banking law since the 1930s. Specifically, the law allows affiliations between insured banks and any financial company, including securities and insurance firms, in new types of bank holding companies, known as “financial holding companies.” In addition, the Act requires financial institutions to establish privacy policies to protect the confidentiality of customer information. Counsel’s office convened a task group within the OIG to review the legislation and any regulatory initiatives associated with the Act. The Office of Counsel expects to review numerous regulatory changes as a result of this legislation.

OIG Counsel reviewed and commented upon the following legislation and regulations:

Legislation

- S. 1993 – Government Information Security Act of 1999
- H.R. 1827 – Government Waste Corrections Act of 1999
- H.R. 436 – Government Waste, Fraud, and Error Reduction Act of 1999
- H.R. 3374 – Proposed; would strengthen the FDIC’s ability to monitor and assess risk in financial institutions for which the FDIC is not the primary federal regulator.
- Draft – Common Passenger Carrier Use Efficiency Act of 2000
- Draft – Inspector General Law Enforcement Authorities

Regulations

- Part 325 – Recourse and Direct Credit Substitutes
- Part 332 – Privacy of Consumer Financial Information

Note: OIG Counsel also reviewed a draft Statement of Policy on Applications for Deposit Insurance. The policy was later issued as a General Counsel’s opinion.

Table 3

Figure 1: Products Issued and Investigations Closed

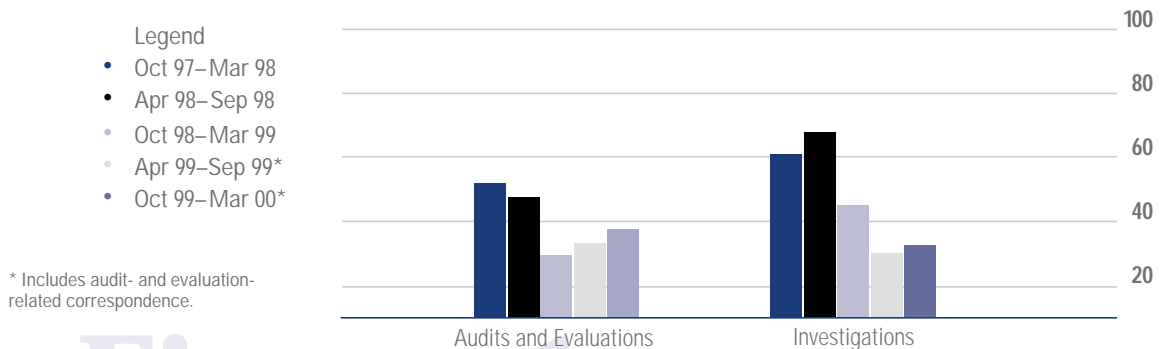


Figure 1

Figure 2: Questioned Costs/Funds Put to Better Use (in millions)

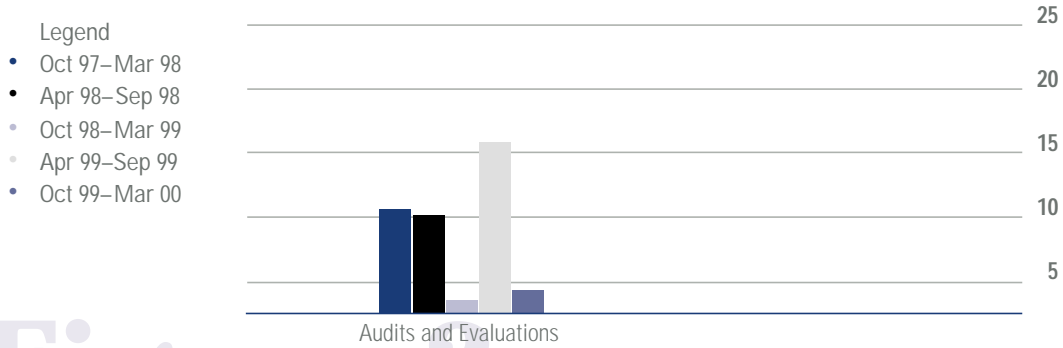


Figure 2

**Figure 3: Fines, Restitution, and Monetary Recoveries Resulting from
OIG Investigations (in millions)**

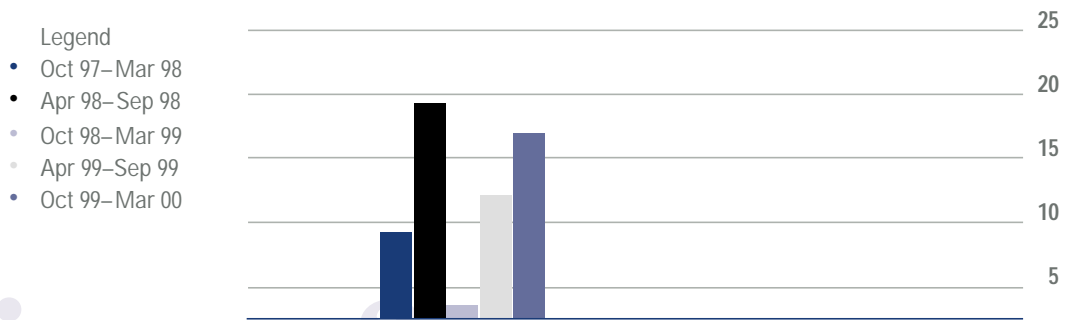


Figure 3

OIG 1999 Performance Report

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Advising on Vulnerabilities and Risks	
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Responsive to Inquiries and Requests	
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Resource Management Goals	52
Detail Listing of Annual Performance Goal Accomplishment	53

OIG 1999 Performance Report

Introduction

Nature and Purpose of Annual Performance Report

The Office of Inspector General has developed its own independent *Strategic Plan* and *1999 Annual Performance Plan*. These plans were designed to establish goals to measure performance consistent with the principles of the Government Performance and Results Act (Results Act). This report presents our performance against our *1999 Annual Performance Plan* focusing on the most meaningful annual measures related to achieving our strategic goals and objectives.

Relationship to FDIC's Annual Program Performance Report

The FDIC issued its 1999 Program Performance Report on March 30, 2000, presenting its performance against 31 annual goals. The Corporation's annual goals addressed the Corporation's mission to "Contribute to the stability and public confidence in the nation's financial system" in four strategic results areas: (1) Insured depositors are protected from loss without recourse to taxpayer funding; (2) Insured depository institutions are safe and sound; (3) Consumers' rights are protected and FDIC-supervised institutions invest in their communities; and (4) Recovery to creditors of receiverships is achieved.

We believe that accomplishing the OIG's strategic and annual goals and objectives contributes to the Corporation's achievement of its mission and goals and objectives.

The requirement for an annual performance report under the Results Act applies to the agency as a whole rather than to the OIG as a separate component. However, because of the unique mission and independent nature of Inspectors General under the Inspector General Act, we have prepared separate strategic and annual plans and reports, rather than integrating OIG goals and results into the Corporation's plans and reports. The FDIC's *1999 Program Performance Report* references our annual report.

Relationship to OIG Semiannual Report to the Congress

Annual performance reports of OIGs prepared under the Results Act differ from semiannual reports of OIGs prepared under the Inspector General Act. The two reports differ with respect to the time periods covered and some of the specific reporting requirements. However, because both types of reports present OIG accomplishments to the Congress, we have included the Annual Performance Report for calendar year 1999 as a separate but integral component of this *Semiannual Report to the Congress*, which covers the period October 1, 1999 to March 31, 2000. Notwithstanding these reporting time period differences, we believe integrating the reports to the Congress under these two statutes facilitates congressional consideration of the results of OIG activities.

Performance Report

OIG 1999 Performance Report

Statistical Summary of Performance Against Annual Goals

The following table summarizes our collective performance against the annual performance goals as they relate to our strategic goals and objectives. A detail listing of goal accomplishment containing all of the annual performance goals is provided on page 53..

Strategic Goals Areas	Strategic Objectives Areas	Annual Goal Accomplishment (Number of Goals)			
		Fully Met	Substantially Complete	Unmet	Total
Audits, Evaluations, and Investigations Add Value	Client Satisfaction	3			3
	Relevance	3	1	1	5
	Quality		2		2
	Impact/Results	2	1	2	5
	Productivity	1	1	2	4
	Timeliness	1	2	2	5
Professional Advice Assists the Corporation	Advise on Emerging Issues and Vulnerabilities	4			4
OIG Communicates Effectively with Clients/Shareholders	Inspector General Role/Activities; Inquiry Response; Interagency Issues	7	2	1	10
Total		21	9	8	38
Percentage		55%	24%	21%	100%

The table indicates that we fully met 55 percent of our goals, and considering those goals substantially met, our overall level of goal achievement is 79 percent. We recognize the considerable shortcomings of attempting to evaluate performance based solely on a statistical summary of measures – given that all measures are not equal in weight and the quality of measures is still evolving. Nevertheless, the numbers provide a rough overall indicator of performance. Considering these overall indicators, along with other factors, the next section of the report presents an **overall assessment** of our progress in achieving our strategic goals and objectives.

Inspector General's Overall Assessment of Performance

In addition to a consideration of the statistical results presented in the previous section, an honest overall assessment of performance must factor in more subjective judgments of the relative quality and weight of the measures and performance against the measures. Conclusions based on this assessment are presented below.

Strategic Goal Area: Audit, Evaluations, and Investigations Add Value

The OIG's strategic objectives address six components of audit, evaluation, and investigative value (client satisfaction, relevance, quality, impact, productivity, and timeliness). In assessing our performance in these six areas,

We have made **substantial progress** in:

- increasing the level of client satisfaction.

OIG 1999 Performance Report

We have performed **reasonably well** against our existing measures and goals in the following areas; however, determining appropriate measures and goals continues to be a challenge and **we need to make more progress in our ability to better measure**

- the relevance of work,
- the quality of work, and
- the impact of our work.

Finally, we **need to substantially improve**

- our productivity and
- the timeliness of work products.

Strategic Goal Areas: Professional Advice and Communication

We have made **substantial progress** in

- providing professional advice on vulnerabilities and emerging issues and
- improving our overall communications with clients and stakeholders.

Strategic and annual performance measurement is an evolutionary process. In this stage of the process, we realize that many of our measures are activity- or output-oriented rather than outcome- or results-oriented. While we believe we have made substantial progress in measuring performance, we acknowledge that our measures do not yet provide a clear and complete picture of our progress toward achieving our strategic goals and objectives. What we now need to do to continue this process is discussed in the next section.

What Next?

Considerable learning has occurred from the process of setting strategic and annual goals, reporting against these goals, and stepping back to assess what it all means. Initiatives to help us continue this process include the following.

Short-term adjustment of 2000 goals. Major adjustments to significantly improve measures is not practicable for 2000. However, for our existing measures, we are reassessing specific goals and adjusting them as necessary to make sure they continue to stretch and challenge us in the direction of improved performance and results.

Reassess the quality of performance measures and strategic alignment. For 2001 and beyond, we will continue to work to identify better outcome-oriented measures of the value and impact of our work. Strategic goals and objectives will be reevaluated to ensure appropriate strategic alignment. In this process, we need to consider (1) the interrelationship of existing measures; (2) the potential for streamlining external reporting measures; (3) the potential for improved alignment between strategic and annual plans and the related plans of the OIG operating components; and (4) the potential for better alignment with the Corporation's strategic plan.

Continue to work on the improvement of internal processes. A number of initiatives are underway to continue to improve our internal operating processes with the view to improve the timeliness and productivity of our work products.

Consider adequacy of underlying measurement systems. As we develop and refine measures, we will continually reevaluate the adequacy of our underlying systems and processes to capture the necessary data and ensure data reliability.

Build on the potential of human capital. We have underway a number of initiatives (see Resource Management Plan section) that recognize the tremendous value and potential of human capital and the need to ensure that we leverage this potential to improve our organizational performance. These initiatives include employee surveys, diversity initiatives, training needs assessment, communication strategy development, and continuing to build a learning organization through these and other activities.

Continue to assess the integration and consolidation of Inspector General accountability. Including this first OIG Annual Performance Report under the Results Act as a companion report with our *Semiannual Report to the*

OIG 1999 Performance Report

Congress serves to emphasize the value of both reports in accounting for the results of OIG work. It also represents an important first step in consolidating Inspector General accountability into a single document. We will continue to evaluate the value of this approach and other ways to make these reports more valuable to the Congress and Chairman of the FDIC.

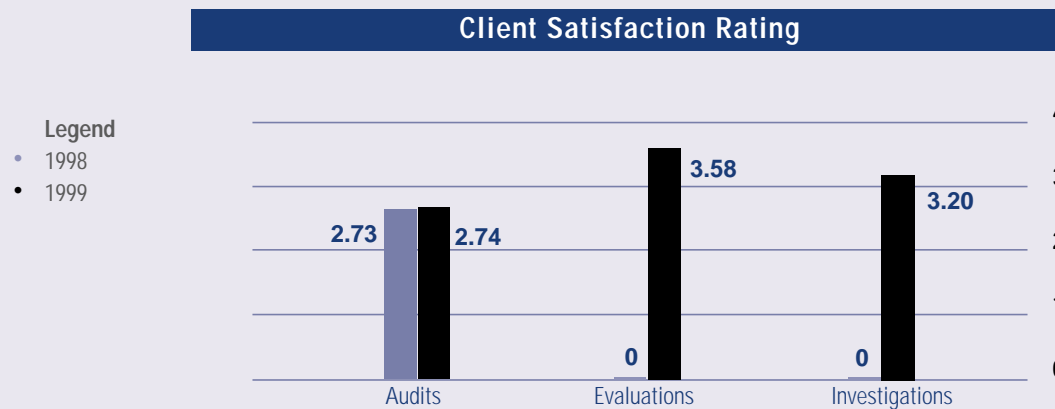
In the following section, we present performance results for each of our strategic objective areas. We also briefly discuss our resource management goals.

Performance by Strategic Objective Areas

Audits, Evaluations, and Investigations Add Value

Client Satisfaction – Meeting Clients' Needs and Expectations

All three client satisfaction goals were met.



Note: No client satisfaction rating was given for evaluations and investigations in 1998.

Follow-up client surveys of senior management executives in 1999, conducted by an independent consultant, reflected substantial progress and improvement from the 1998 survey for all three OIG core functions – audits, evaluations, and investigations. For audits, the overall quantitative rating increased, and executives with direct experience of the audit process reported a more collaborative relationship and regarded the audit process as adding value to their work. The evaluations and investigations functions received high ratings, which is particularly significant given that senior executives were unable to rate these functions in 1998 due to a lack of knowledge or awareness of the operations.

Client satisfaction is closely interrelated to the other five measurement components of value identified in our strategic objectives and has provided useful feedback on our success in the other measurement areas.

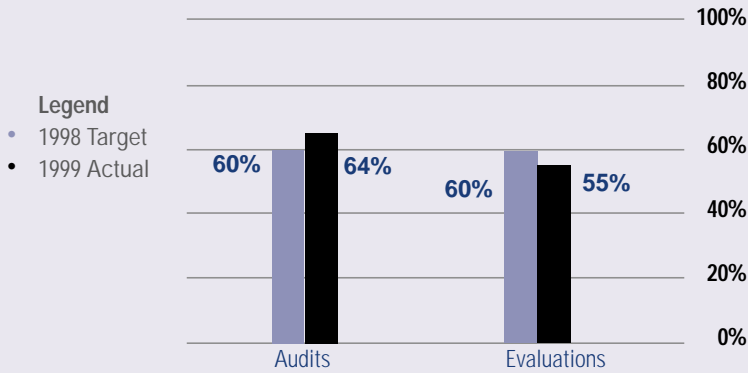
While the client survey results were generally positive, they also show opportunities to improve the focus of our work on matters of the most importance to senior management (relevance) and continued opportunities to improve the timeliness of our work.

Relevance – Targeting High-Risk Areas and Corporate Strategic Priorities

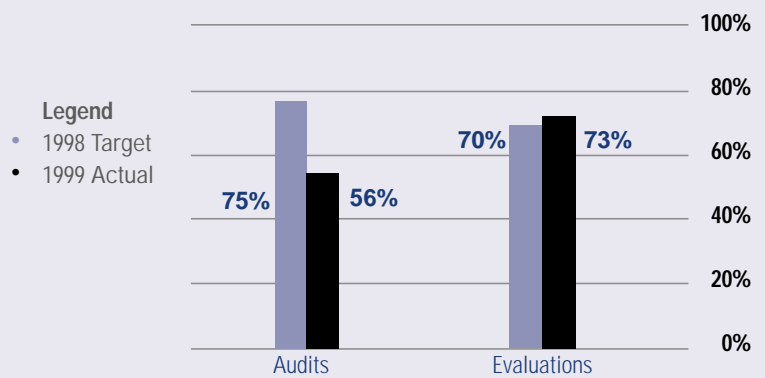
Four of five goals were met or substantially met (quantitative goals were considered substantially met if performance was achieved within 10 percent of the goal).

OIG 1999 Performance Report

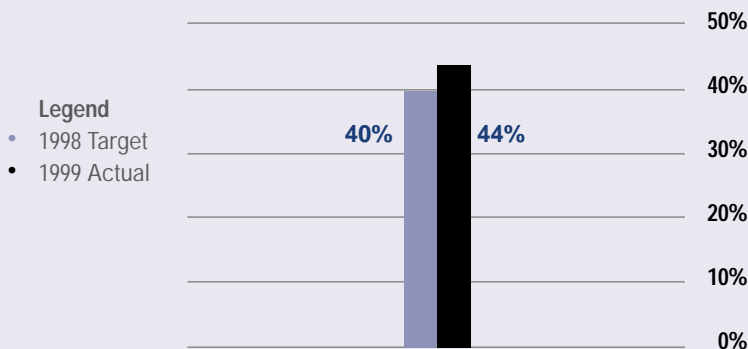
Percentage of Initiated Audits and Evaluations Relating to High-Risk Areas¹



Percentage of "Relevant" Audits and Evaluations¹



Percentage of New Investigative Cases Relating to High-Risk Areas



¹The determination of high-risk areas is made by OIG. Audits were considered relevant if they were initiated under the OIG's Audit Plan and related directly to an FDIC strategic goal or annual performance goal. Evaluations initiated during 1999 were considered relevant if they related directly to a corporate strategic objective, Chairman's request, or congressional inquiry.

OIG 1999 Performance Report

The goal for relevant audits was not met because audits in certain administrative areas (contracting and information technology), including some audits requested by management, were not directly related to corporate strategic goals and therefore were not counted toward the goal. We have adjusted our 2000 goal to include requested audits in the relevance count.

Measuring the relevance and importance of our work continues to be a challenge. Client surveys have suggested that our work needs to focus more on issues of the greatest importance to top FDIC management. As a result, we are working with our clients more closely in the planning process. We will continue to explore ways to better measure the relevance of our work.

Quality - Complying with Professional Standards

We have substantially met both of our quality goals.

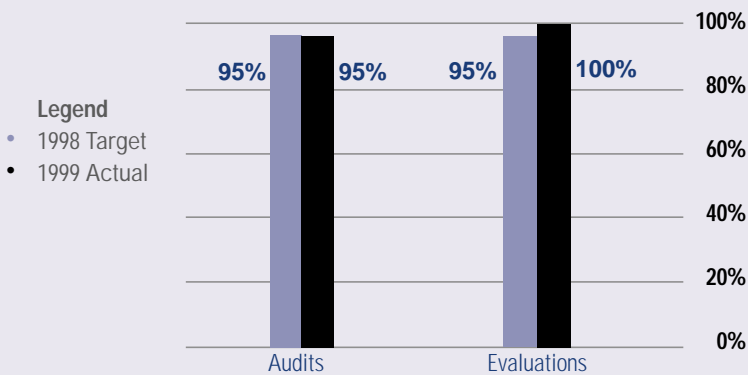
- We initiated a program to quantitatively rate the quality of all audit and evaluation reports issued based on (1) an Inspector General assessment of each issued report using established quality criteria and (2) use of client feedback forms for each report. Quantitative quality baselines will be established and future quality targets established.
- We substantially completed an internal quality assurance review of investigative activities identifying opportunities to improve quality.

Determining and fairly measuring all the dimensions of quality is a substantial challenge. The components of quality are linked to our other strategic objective areas (relevance, timeliness, client satisfaction, impact) related to adding value. We believe our new initiatives for audits and evaluations described above move us in the right direction. We will evaluate data received under these initiatives to ensure we are measuring the right things in the right manner so that we are able to establish reasonable future targets to ensure the highest quality work. As necessary, we will adjust our measures for future years.

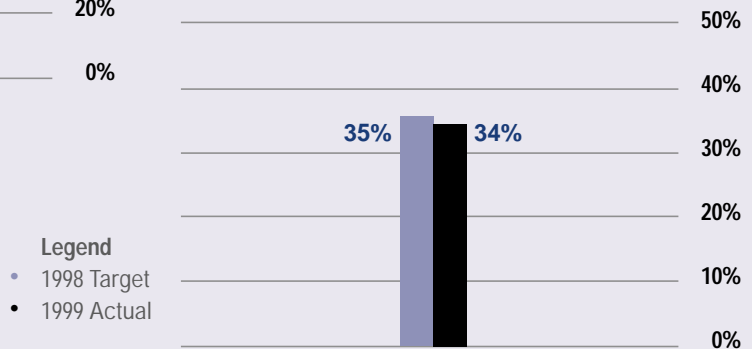
Impact/Results – Products Achieve Significant Impact or Results

Three of five impact goals were met or substantially met as shown in the following graphs.

Percentage of Recommendations Agreed to by Management Within 180 Days of Report Issuance



Percentage of Closed Cases Resulting in Criminal, Civil, or Administrative Actions



OIG 1999 Performance Report

However, we did not meet two goals related to developing and testing new methodologies for measuring the impact of our audit, evaluation, and investigative work. While we have made progress in establishing measures related to the value and impact of our work (including those discussed under "Client Satisfaction" and "Quality"), we believe we need to seek better ways of measuring impact.

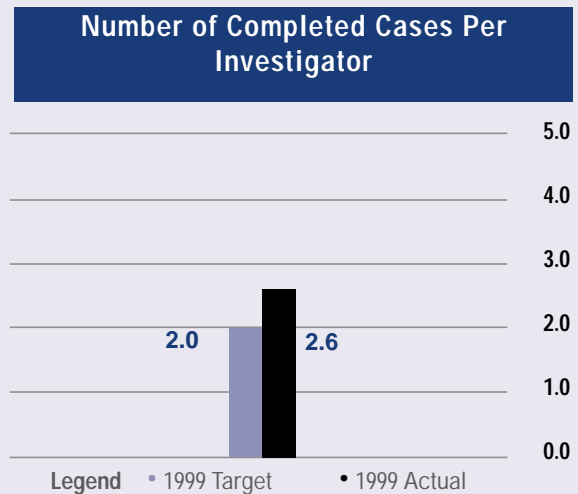
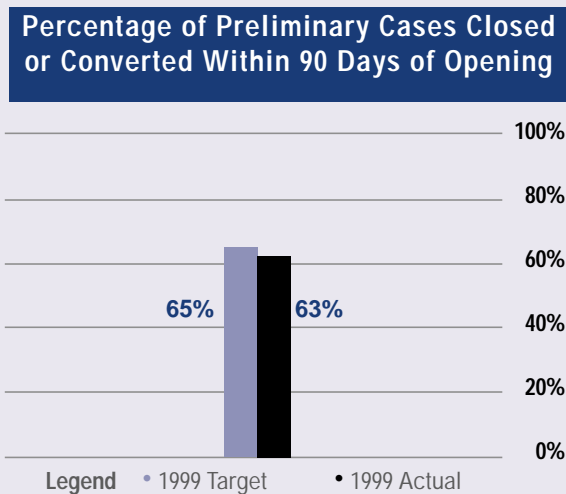
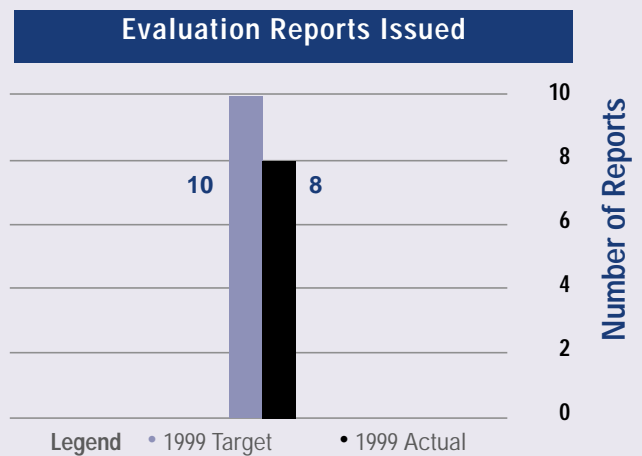
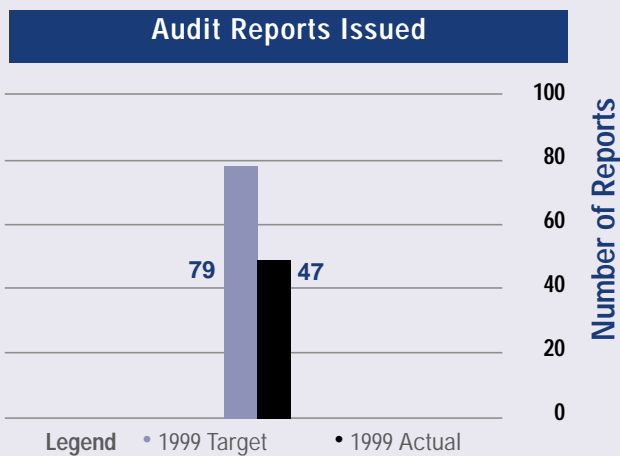
The primary reason we have not made more progress in this area is the inherent difficulty in measuring the **impact** of audit, evaluation, and investigative work as a bottom-line measure of value. These challenges include: **accurately measuring cost savings from work**; quantifying the impact of various **OIG prevention activities**, including the value of improved internal controls resulting from **OIG work**; and measuring the **deterrent value** of **OIG investigative work**.

We will continue to explore better measures of impact including research to evaluate the merits of measurement practices and models that exist in other audit and law enforcement organizations.

Although our impact measures have not been refined, we believe the results of various **OIG projects**, as reported in our semiannual reports covering calendar year 1999, have demonstrated results that have had a significant positive impact on the operations of the FDIC. The semiannual reports present various measures specified in the Inspector General Act including questioned costs and funds put to better use; fines, restitution, and monetary recoveries resulting from **OIG investigations**; and nonmonetary recommendations. (See pages 37-39 in this semiannual report.)

Productivity – Managing Resources to Maximize Productivity

Two of four productivity goals were met or substantially met.

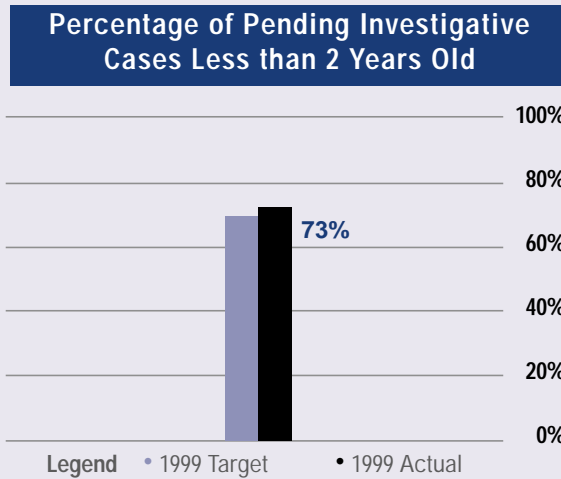
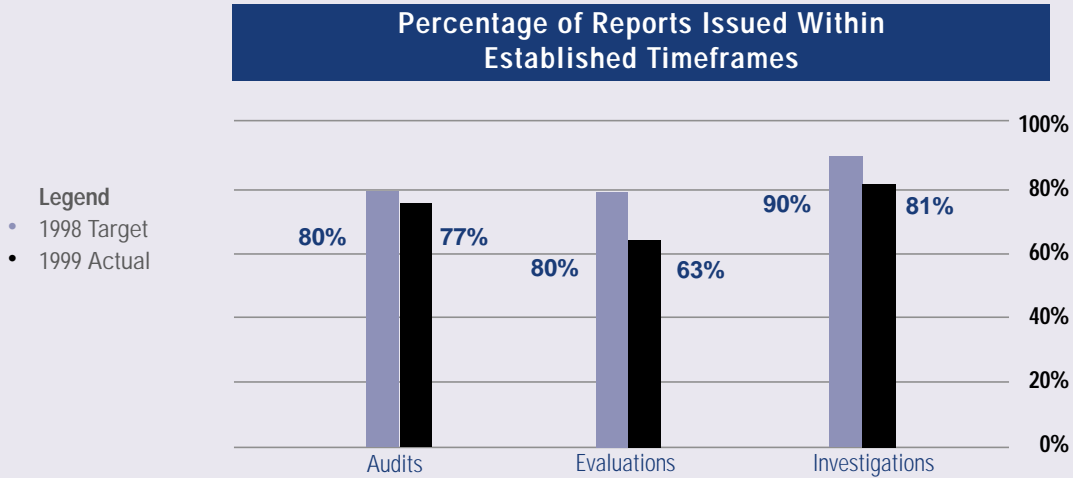


OIG 1999 Performance Report

The goals related to the number of audit and evaluation reports issued were not met. A number of circumstances contributed to the level of report issuance being below the original target. For example, the scope of work exceeded original plans in some cases. Further, several projects were communicated by memoranda rather than formal reports. If these were counted, there were 71 audit products (within 10 percent of goal) and 13 evaluation products (exceeding goal).

Timeliness – Issuing reports timely

Three of five timeliness goals were met or substantially met



OIG 1999 Performance Report

As shown in the first graph on page 48, the goal that 80 percent of evaluation reports be issued within 180 days was not met. It should be noted, however, that the median timeframe for issuing all eight evaluation reports was 162 days. The scope of three products required more time than the 180-day target. The goal for 2000 has been revised to focus primarily on meeting timeframes agreed upon with management.

A fifth goal (not shown in the graphs) regarding communications of investigative milestones was not met. The goal specified notifying the Corporation 90 percent of the time within 10 working days of attainment of a major investigative milestone. A determination was made that it was neither feasible nor necessary to measure this activity. Instead we began new alternative practices designed to keep management informed of investigative work, including quarterly meetings and reports with management and other communication activities. This goal will be discontinued.

Although the goal that audit reports be issued within an established 320-day timeframe was substantially met, we believe the opportunity exists to further improve the timeliness of audits. Client surveys have expressed a continuing concern in this area. As a result, we have lowered the target audit timeframe to 260 days and are implementing new internal operating initiatives designed to improve timeliness.

OIG Professional Advice Assists Corporation

All four performance goals in this strategic goal area were met. Two goals related to emerging issues and task forces and two goals related to vulnerabilities and risks.

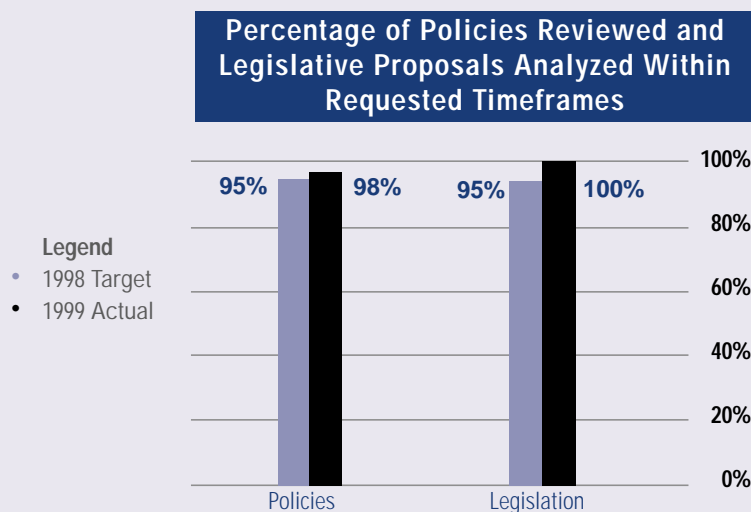
Emerging Issues and Task Forces

Emerging Issues – The performance goal was met by OIG providing timely “front-end” assessments of emerging issues, new systems, significant programs, and related issues. Emerging issues in which the OIG was actively involved in partnership with the Corporation included: high priority Year 2000 initiatives; system development and application enhancement projects, including public key infrastructure and website security; corporate contingency planning; Division of Supervision program assessments; and various quick response reviews.

Task Forces – The OIG met its performance goal regarding participation in FDIC task forces. OIG staff participated in a wide array of Corporation group efforts to develop and improve corporate systems; resolve pressing issues in a timely manner; and improve significant processes, programs, and policies. Cooperative efforts included such areas as: Asset Loss Reserve strategic planning; investigating bank fraud at open institutions; restitution cases involving fraud; diversity and equal employment opportunity activities; Alternative Dispute Resolution activities; the Corporation’s Financial Analysis Project; Internal Control Liaison Council activities, and Customer Service Committee activities.

Advising on Vulnerabilities and Risks

Regulatory and Legislative Proposals and Corporate Policies – The OIG is committed to reviewing and analyzing regulatory or legislative proposals and proposed corporate policies and providing advisory comments to management.



OIG 1999 Performance Report

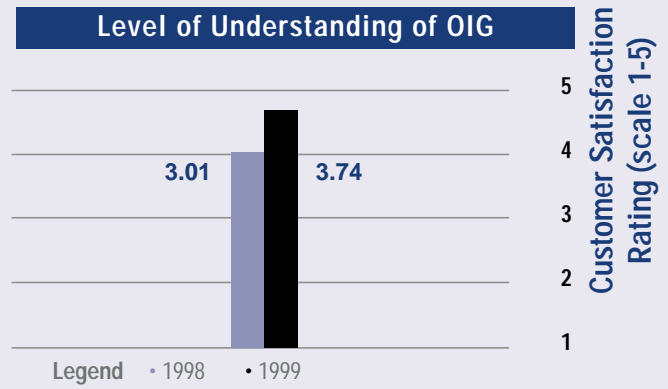
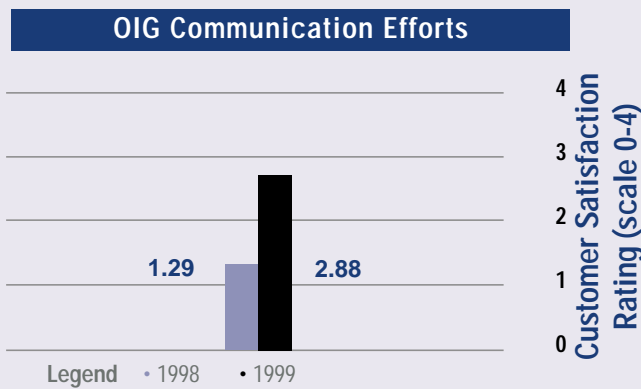
Corporate Internal Control Process – We also met our goal to review and report timely on the adequacy of the Corporation's annual internal control evaluation and reporting process.

Communicating Effectively With the Chairman, the Congress, and Other Stakeholders

We met or substantially met 9 of 10 goals relating to informing clients of the OIG's role, mission, and activities; responding to client requests and inquiries; and working with other agencies on cross-cutting issues.

Ensuring Clients Are Informed of OIG Role, Mission, Activities, Issues, and Deficiencies

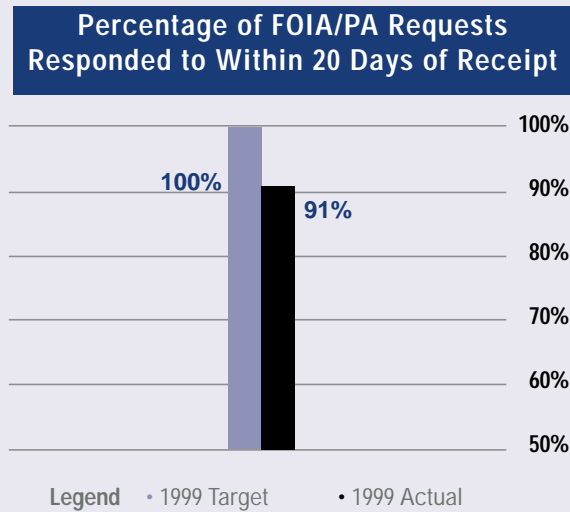
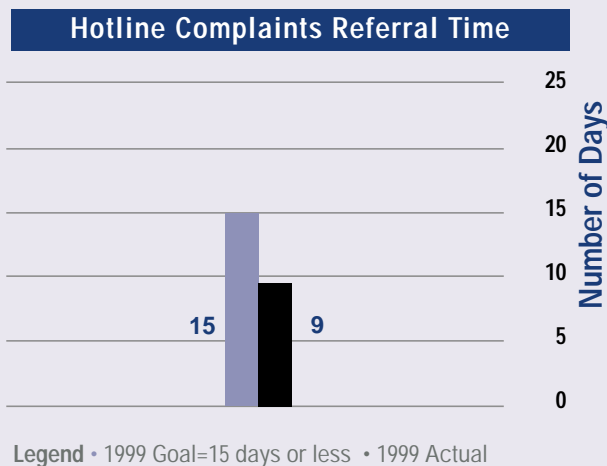
Client Satisfaction – The goal to increase the client satisfaction rating above the 1998 baseline was met. Surveys of senior FDIC executives acknowledged a substantial increase in OIG communication efforts during 1999. The surveys indicated that executive management has a better understanding of the mission, role, and function of the OIG and has experienced a greater sense of collaboration and partnership with the OIG.



Providing Information to Clients – Three goals related to providing the following reports and information to clients were met: *Semiannual Report to the Congress*; *Annual Performance Plan*; *Audit Plan*; and *Weekly Highlights reports*.

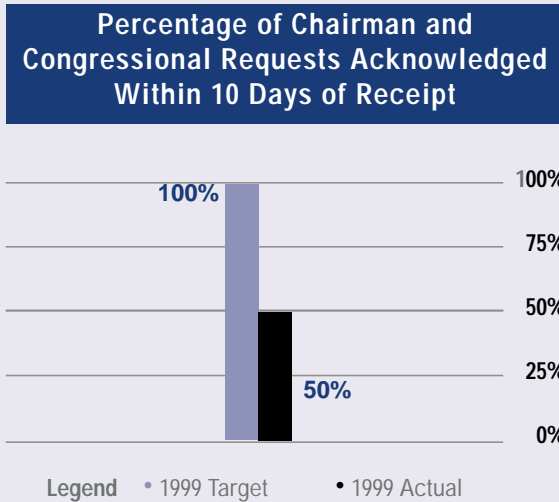
Responsive to Congressional, Employee, and Public Inquiries and Requests

Hotline Complaints and Freedom of Information Act and Privacy Act (FOIA/PA) Requests – The OIG's goal regarding its average referral time for hotline complaints was met. Our goal for timely response to FOIA/PA requests was substantially met.



OIG 1999 Performance Report

Chairman and Congressional Requests – The OIG tracked the resolution of all requests from the Chairman’s Office or from the Congress. However, the OIG did not meet its goal to acknowledge all such requests within 10 business days. Four of eight requests were acknowledged within 10 days. Of the remaining four requests, three were both acknowledged and closed within an average of 27 days, and one required 38 days to allow for coordination within the Inspector General community. Overall, the median response time for the 8 requests was 13 days. We believe our response times will decrease as we improve our procedures.



Access to Reports – Our goal to provide access to audit reports, evaluation reports, and press releases was substantially met. All of our 1999 audit and evaluation reports and press releases were provided to the FDIC Public Information Center and the OIG Webmaster in a timely manner under our OIG policy. In some cases, however, technical issues contributed to moderate delays in the availability of some of these documents on the OIG Homepage Web site. We are working to eliminate these delays.

Working with PCIE and Other Government Agencies to Address Crosscutting Issues

The OIG met both of its performance goals to actively support the activities of the President’s Council on Integrity and Efficiency (PCIE) and our goal to share information with the FDIC and other agencies. Significantly, the FDIC Inspector General was appointed PCIE Vice Chair in May 1999 and, in this capacity, provided leadership on a wide variety of inter-agency activities. Other significant OIG activities in 1999 included: leading a successful joint audit of the Federal Financial Institutions Examination Council’s training activities; providing coordination for the Department of the Treasury Inspector General in obtaining the information needed from the FDIC on a Material Loss Review of the First National Bank of Keystone, Keystone, West Virginia; and making presentations at a variety of training conferences attended by auditing, law enforcement, banking, and regulatory officials.

Quality Relevance
Impact

OIG 1999 Performance Report

Resource Management Goals

In addition to the strategic goals, the OIG has adopted an operating principle that commits the OIG to the effective management of resources related to staffing; information technology; professional standards and internal controls; communications; legal advice; and administrative services.

- We conducted a diversity study of all OIG employees, and have issued an organization-wide Action Plan.
- In initiating a project to build the OIG into a learning organization, we used a consultant to perform an internal self-assessment to identify issues and are implementing Action Plans to address the issues, including the results of internal and external customer surveys.
- OIG employees were surveyed regarding their satisfaction with the OIG's internal legal services; quality assurance program; internal control and risk management program; and computer equipment, software, and systems. The feedback gained was used in improving performance in these functions.
- We ensured Y2K compliance for OIG computer equipment, software, and systems. DIRM performed Y2K compliance tests of all OIG systems. The OIG did not have any equipment, software, or systems problems caused by the century change.
- The OIG surveyed staff views on computer training and took steps to utilize additional training programs to develop necessary skills.
- We developed and implemented two major nationwide OIG information systems by year-end.
- We substantially completed an internal quality assurance review of the OIG investigation function.

Client Satisfaction

Accountability

Impact

Quality

Timeliness

Results

Relevance

OIG 1999 Performance Report

Detail Listing of Annual Performance Goal Accomplishment

Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area)	Annual Goal Accomplishment
Audits, Evaluations, and Investigations Add Value	
<u>Client Satisfaction</u>	
Increase the average customer satisfaction rating [of audit work] above the baseline level established by a client survey issued in 1998	Met
Increase the average customer satisfaction rating [of evaluation work] above the baseline level established by a client survey issued in 1998	Met
Increase the average customer satisfaction rating [of investigation work] above the level established by the 1998 client survey	Met
<u>Relevance</u>	
60 percent of initiated audits will relate to corporate activities that the OIG determines to be areas of high risk or vulnerability, including potential for fraud or abuse	Met
60 percent of initiated evaluations will relate to corporate activities that the OIG determines to be areas of high risk or vulnerability, including potential for fraud or abuse	Substantially Met
At least 75 percent of the audits initiated under the OIG's audit plan will relate directly to FDIC's strategic goals or annual performance goals	Not Met
70 percent of evaluation projects will relate directly to a corporate strategic objective, Chairman's request, or congressional inquiry	Met
40 percent of new cases will be related to criminal restitution and civil judgment, bankruptcy, or suspected fraud in open banks	Met
<u>Quality</u>	
Develop and test a post-issuance quality scoring methodology and set future targets	Substantially Met
Conduct operational reviews every 18 months in each regional office and correct identified issues within 3 months of the review report	Substantially Met
<u>Impact/Results</u>	
The OIG and FDIC management agree on appropriate management action on 95 percent of audit recommendations within 180 days of report issuance	Met
The OIG and FDIC management agree on appropriate management action on 95 percent of evaluation recommendations within 180 days of report issuance	Met
Analyze baseline data; develop and test a methodology to measure the impact of audit and evaluation work; and set future targets	Not Met
35 percent of closed cases (discretionary type) will result in criminal, civil, or administrative actions	Substantially Met
Establish baseline data and develop and test a methodology to better measure impact of investigative work and set future targets	Not Met

OIG 1999 Performance Report

Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area)	Annual Goal Accomplishment
Audits, Evaluations, and Investigations Add Value (continued)	
<u>Productivity</u>	
Issue 79 audit reports	Not Met
Issue 10 evaluation reports	Not Met
Close or convert 65 percent of preliminary cases to investigations within 90 days of opening	Substantially Met
The number of cases completed per investigator will be greater than two	Met
<u>Timeliness</u>	
Issue 80 percent of audit reports within established timeframes (320 calendar days)	Substantially Met
Issue 80 percent of evaluation reports within established timeframes (180 days)	Not Met
70 percent or more of pending cases will be less than 2 years of age	Met
Notify the Corporation 90 percent of the time within 10 working days of attainment of major investigative milestones	Not Met
Issue 90 percent of Reports of Investigation within 30 working days after all criminal/civil actions have been taken or after Department of Justice declination	Substantially Met
Professional Advice Assists Corporation	
<u>Advise on Emerging Issues and Vulnerabilities</u>	
Conduct "front-end" assessments of Y2K and other emerging issues, new systems, or other matters affecting the Corporation, within timeframes that are responsive to corporate needs	Met
Participate in FDIC task forces developing new programs/processes, if OIG participation is appropriate and can add value	Met
Review proposed corporate internal policies and respond to the Corporation and analyze regulatory/legislative proposals within requested timeframes 95 percent of the time	Met
Report within established timeframes on the results of the OIG's review of the Corporation's annual Federal Managers Financial Integrity Act internal control review process, a process required for the FDIC by the Chief Financial Officers Act of 1990	Met
Communicate Effectively with Clients/Stakeholders	
<u>Inspector General Role/Activities; Inquiry Response; Interagency Issues</u>	
Provide OIG Semiannual Report and other information to and interact with the Congress and corporate officials	Met
Brief the Congress on Annual Performance Plan and FDIC management on Annual Audit Plan	Met

OIG 1999 Performance Report

Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area)	Annual Goal Accomplishment
Communicate Effectively with Clients/Stakeholders (continued)	
Produce and communicate weekly highlights report to the Chairman on significant OIG activities by the first working day following the week being featured	Met
Increase the average customer satisfaction rating of OIG communication efforts above the baseline level established by the 1998 survey	Met
Refer Hotline complaints within an average of 15 working days of receipt to appropriate OIG or corporate officials for review and track their resolution	Met
Respond to Freedom of Information Act/Privacy Act requests within 20 days of receipt unless deadline is extended in accordance with law, applicable regulation, and OIG policy	Substantially Met
Acknowledge Chairman's Office or congressional requests within 10 business days of receipt and track their resolution	Not Met
Provide access to audit reports, evaluation reports, and press releases on the OIG Homepage and in the FDIC reading room within 30 days of acceptance or in accordance with policy	Substantially Met
Continue to actively participate in and support the activities of the President's Council on Integrity and Efficiency	Met
Share information that could assist the FDIC, other OIGs, and other government agencies in public forums (i.e., professional conferences, round table discussion, training courses, etc.), as requested	Met

Reporting Terms and Requirements

Reader's Guide to Inspector General Act Reporting Terms

What Happens When Auditors Identify Monetary Benefits?

Our experience has found that the reporting terminology outlined in the Inspector General Act of 1978, as amended, often confuses people. To lessen such confusion and place these terms in proper context, we present the following discussion:

The Inspector General (IG) Act defines the terminology and establishes the reporting requirements for the identification and disposition of questioned costs in audit reports. To understand how this process works, it is helpful to know the key terms and how they relate to each other.

The first step in the process is when the audit report identifying **questioned costs**^{*} is issued to FDIC management. Auditors question costs because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds. In addition, a questioned cost may be a

finding in which, at the time of the audit, a cost is not supported by adequate documentation; or, a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

The next step in the process is for FDIC management to make a decision about the questioned costs. The IG Act describes a **"management decision"** as the final decision issued by management after evaluation of the finding(s) and recommendation(s) included in an audit report, including actions deemed to be necessary. In the case of questioned costs, this management decision must specifically address the questioned costs by either disallowing or not disallowing these costs. A **"disallowed cost,"** according to the IG Act, is a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Once management has disallowed a cost and, in effect, sustained the auditor's questioned costs, the last step in the process takes place which culminates in the **"final action."** As defined in the IG Act,

final action is the completion of all actions that management has determined, via the management decision process, are necessary to resolve the findings and recommendations included in an audit report. In the case of disallowed costs, management will typically evaluate factors beyond the conditions in the audit report, such as qualitative judgments of value received or the cost to litigate, and decide whether it is in the Corporation's best interest to pursue recovery of the disallowed costs. The Corporation is responsible for reporting the disposition of the disallowed costs, the amounts recovered, and amounts not recovered.

Except for a few key differences, the process for reports with recommendations that **funds be put to better use** is generally the same as the process for reports with questioned costs. The audit report recommends an action that will result in funds to be used more efficiently rather than identifying amounts that may need to be eventually recovered.

Consequently, the management decisions and final actions address the implementation of the recommended actions and not the disallowance or recovery of costs.

^{*}It is important to note that the OIG does not always expect 100 percent recovery of all costs questioned.

Index of Reporting Requirements - Inspector General Act of 1978, as amended

Reporting Requirement	Page
Section 4(a)(2): Review of legislation and regulations	38
Section 5(a)(1): Significant problems, abuses, and deficiencies	10-25
Section 5(a)(2): Recommendations with respect to significant problems, abuses, and deficiencies	10-25
Section 5(a)(3): Recommendations described in previous semiannual reports on which corrective action has not been completed	58-60
Section 5(a)(4): Matters referred to prosecutive authorities	26
Section 5(a)(5) and 6(b)(2): Summary of instances where requested information was refused	65
Section 5(a)(6): Listing of audit reports	61-62
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Section 5(a)(8): Statistical table showing the total number of audit reports and the total dollar value of questioned costs	63
Section 5(a)(9): Statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use	64
Section 5(a)(10): Audit recommendations more than 6 months old for which no management decision has been made	65
Section 5(a)(11): Significant revised management decisions during the current reporting period	65
Section 5(a)(12): Significant management decisions with which the OIG disagreed	65

Appendix I: Statistical Information Required by the Inspector General Act of 1978, as amended

The following 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 information supplied by the FDIC's Office of Internal Control Management (OICM). These 33 recommendations from 11 reports involve monetary amounts of over \$16.1 million. OICM has categorized the status of these recommendations as follows:

Management Action in Process: (12 recommendations from 7 reports)

Management is in the process of implementing the corrective action plan, which may include modifications to policies, procedures, systems or controls; issues involving monetary collection; and settlement negotiations in process.

Litigation: (21 recommendations from 4 reports)

Each case has been filed and is considered "in litigation." The Legal Division will be the final determinant for all items so categorized.

Table I.1: Significant Recommendations From Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
98-083 Securitization Credit Enhancement Reserve Fund 1992-CHF October 2, 1998	1 2, 3	Require documentation from the trustee and servicers that will support the withdrawals from the reserve fund. Disallow \$385,727 in supplemental special servicer fees billed early or before any work was performed.
98-086 Implementation of the Risk-Focused Examination Process November 5, 1998	4	Provide a refresher course to field examiners on the use of the Examiner Laptop Visual Information System software and provide clarification on issues that have emerged since the modules have been instituted.
98-090 Credit Enhancement Reserve Fund for Securitization Transactions 1993-03 November 24, 1998	2, 4 10	Quantify the amount of overstated realized losses, unrecorded proceeds, corporate advances and refunds resulting from accounting errors and request reimbursement from NationsBanc, as successor to Boatmen. Perform or contract for on-site reviews of the servicer's supporting documentation of the realized losses for the single-family residential loan securitization program.
EVAL 99-004 FDIC Headquarters Copier Administration Program June 15, 1999	7	Reassess FDIC headquarters color copying requirements and determine whether FDIC could more economically meet those needs by consolidating copiers or installing more appropriate color copy machines.
99-027 Limited Scope Audit of Credit Enhancement Reserve Funds for Securitization Transaction 1991-16 and 1992-05 July 6, 1999	1	Disallow \$331,672 for losses that were incurred and negotiate a settlement agreement to obtain restitution for the losses related to Chapter 11 bankruptcy proceedings.
99-028 Personnel Action Processing Controls and Security July 29, 1999	3	Ensure that the system being developed to replace the Personnel Action Request System incorporates the capability to preserve a permanent image or record of the original request for personnel action and provides an audit trail to changes and additions made to the request.*
EVAL 99-007 FDIC Regional Copier Program September 30, 1999	1 2	Take actions to more closely align the types and placement of equipment in the Dallas Regional Office's and San Francisco Regional Office's copier programs with each region's copying demands. Analyze the available convenience copier contract vehicles and scenarios and select the ones that provide the best value for the Dallas Regional Office and San Francisco Regional Office.

*Implementation scheduled along with the completion of the Corporate Human Resources Information System.

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Litigation		
95-032 Local America Bank, F.S.B., Assistance Agreement March 24, 1995	5	Recover \$5,259,285 from the association for noncompliance with the tax benefits provisions of the assistance agreement.
96-014 Superior Bank, F.S.B., Assistance Agreement, Case Number C-389c February 16, 1996	1, 4-16	Recover \$4,526,389 of assistance paid to Superior Bank.
97-080 FDIC Property Tax Reassessments and Refunds, Western Service Center July 17, 1997	8	Disallow the improperly paid late fees and special assessments totaling \$4,385,089 and initiate action to prevent future payments of such amounts.
98-026 Assistance Agreement Audit of Superior Bank, Case Number C-389c March 9, 1998	2, 3, 4, 6	Recover \$1,220,470 of assistance paid to Superior Bank.
	11	Compute the effect of understated Special Reserve Account for Payments in Lieu of Taxes and remit any amounts due to the FDIC.

Table I.1

Table I.2: Audit Reports Issued by Subject Area

Audit Report Number and Date	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Supervision and Consumer Affairs				
00-002 February 23, 2000	Management Review of Division of Supervision Tracking Systems			
Award, Administration, and Oversight of Contracts and Agreements				
EVAL-99-009 December 20, 2000	MCI Voice and Video Contract Price Warranty			\$2,181,984
00-010 March 28, 2000	Mortgage Project Group's Billings	\$58,254		
Asset Servicing and Liquidation				
99-044 November 24, 1999	Loan Processing and Disposition Procedures, Southwest Bank, Jennings, Louisiana			
D99-045 November 29, 1999	Delegations of Authority for Asset Dispositions			
99-046 December 16, 1999	RTC Mortgage Trust 1994 S-6			
00-001 January 12, 2000	Internal Controls over Receivership Employee Benefit Plans			
00-003 March 13, 2000	Northeast Service Center's Subsidiaries Inventory			
00-004 March 3, 2000	Industrial Revenue Bond Partnership TEJV-1, L.P.			
00-005 March 17, 2000	RTC Mortgage Trust 1993-N3	\$349,684	\$13,068	
00-006 March 17, 2000	RTC Mortgage Trust 1994-N1	\$366,555	\$931	
00-007 March 17, 2000	RTC Mortgage Trust 1994-N2	\$417,294		
00-008 March 20, 2000	Income, Expenses, and Distributions of the Overland National Fund Limited Partnership, Monrovia, CA	\$151,012	\$102,212	

Audit Report Number and Date	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Financial Accountability and Internal Controls				
00-014 March 31, 2000	Accounts Payable Operations in Washington, D.C.			
Financial and Management Information Systems				
99-043 October 27, 1999	DOA Actions Regarding Internet Banking			
99-047 December 21, 1999	Data Integrity Controls for Selected Division of Resolutions and Receiverships (DRR) Automated Systems			
00-011 March 30, 2000	Acquisition of Software and Services to Support the Corporate Human Resources Information System			
00-012 March 24, 2000	FDIC's Year 2000 Efforts			
00-013 March 31, 2000	FDIC's Strategic Planning for Information Technology Resources			
Corporate Activities and Administration				
00-009 March 23, 2000	Semiannual Report of FDIC Board Members' Travel Voucher Reviews– September 1999 through February 2000			
Totals for the Period		\$1,342,799	\$116,211	\$2,181,984

Table I.3: 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.	5	\$1,342,799	\$116,211
Subtotals of A and B	5	\$1,342,799	\$116,211
C. For which a management decision was made during the reporting period.	5	\$1,342,799	\$116,211
(i) dollar value of disallowed costs.	4	\$577,512	\$116,211
(ii) dollar value of costs not disallowed.	4*	\$765,287	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

*Three of the four reports included on the line for costs not disallowed are also included in the line for costs disallowed, since management did not agree with some of the questioned costs.

Note: In addition, the FDIC has recovered \$26,568 as a result of legal fee bill audit work that did not result in a formally issued report.

Table I.3

Table I.4: 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.	1	\$2,181,984*
Subtotals of A and B	1	\$2,181,984
C. For which a management decision was made during the reporting period.	1	\$2,181,984
(i) dollar value of recommendations that were agreed to by management	1	\$2,181,984
- based on proposed management action.	1	\$2,181,984
- 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

*Evaluation report included in this table to reflect funds put to better use amount.

Table I.4

Table I.5
Status of OIG Recommendations Without Management Decisions

During this reporting period, there were no recommendations without management decisions.

Table I.6
Significant Revised Management Decisions

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

Table I.7
Significant Management Decisions with Which the OIG Disagreed

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

Table I.8
Instances Where Information Was Refused

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

Appendix II

Appendix II: Reports Issued by the Office of Congressional Relations and Evaluations

Report Number and Date	Title
EVAL-99-009 12/20/99	MCI Voice and Video Contract - Price Warranty
EVAL-00-001 1/25/00	An Assessment of the Corporation's Efforts to Enhance Energy Efficiency and Reduce Consumption of Natural Resources at Its Headquarters Facilities
EVAL-00-002 2/24/00	The Division of Compliance and Consumer Affairs' Reporting of Examinations and Activities in FDIC Quarterly Performance Reports
EVAL-00-003 3/24/00	Internal Controls Over Confidential Information Collected and Generated During the Application Process

Appendix II

Abbreviations

ACSB	Acquisition and Corporate Services Branch
CHRIS	Corporate Human Resources Information System
CRA	Community Reinvestment Act
DCA	Division of Compliance and Consumer Affairs
DIRM	Division of Information Resources Management
DOA	Division of Administration
DOS	Division of Supervision
DRR	Division of Resolutions and Receiverships
ECIE	Executive Council on Integrity and Efficiency
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FOIA	Freedom of Information Act
FRB	Board of Governors of the Federal Reserve System
GAO	U.S. General Accounting Office
GSA	General Services Administration
IG	Inspector General
IRS	Internal Revenue Service
IT	Information Technology
MCI	MCI WorldCom
NESC	Northeast Service Center
NPS	National Processing System
OCC	Office of the Comptroller of the Currency
ODEO	Office of Diversity and Economic Opportunity
OI	Office of Investigations
OICM	Office of Internal Control Management
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
PA	Privacy Act
PCIE	President's Council on Integrity and Efficiency
PTL	Pacific Thrift and Loan Company
RTC	Resolution Trust Corporation

Congratulations!

Congratulations to co-authors Jeanette M. Franzel (U.S. General Accounting Office) and Ross E. Simms (FDIC OIG) on the publication of their article "The Buck Stops Here: A Unique Partnership in Federal Financial Auditing" in *The Journal of Public Inquiry*, a publication of the Inspectors General of the United States, Fall/Winter 1999 issue. Their article chronicles a collective effort to conduct the financial statement audit for their common client, the FDIC. This alliance has become an innovative model for forming partnerships in the federal government.

Happy Retirement

The OIG bids a fond farewell to James R. Renick, who retired from the FDIC after more than 23 years of service. Jim was involved in almost every aspect of audit and investigative activities at the FDIC. He joined the Corporation in 1976 as Assistant Director of the Office



of Corporate Audits and Investigations, which in 1989 became the Office of Inspector General. At that time, he became the Deputy Inspector General, a position he held until then-Acting Chairman Andrew Hove selected him as the FDIC's Inspector General upon the retirement of Mr. Robert Hoffman. When the Congress designated the position of Inspector General at the FDIC

a presidential appointment, Jim became the Principal Deputy Inspector General but served as Acting Inspector General for 2 years until the current Inspector General, Gaston L. Gianni, Jr., was named Inspector General in April 1996. Jim served as Principal Deputy Inspector General since that time.

Family, friends, and colleagues from throughout the FDIC celebrated Jim's retirement on March 30, 2000. The OIG thanks and congratulates him for his distinguished federal career.



Mr. and Mrs. Renick with
FDIC Chairman Tanoue.

Federal Deposit Insurance Corporation
Office of Inspector General
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