



# **Office of Inspector General**

## **2009 Business Plan**



# Inspector General Foreword

This Business Plan reflects the Office of Inspector General's (OIG) continuing efforts to clearly articulate and carry out an integrated series of quality audits, evaluations, investigations, and internal organizational activities in service to the Federal Deposit Insurance Corporation (FDIC), the Congress, the public, and other key stakeholders.



As IG, I meet regularly with members of the FDIC's senior executive management team. These meetings help shape the OIG's thinking on the issues and risks facing the FDIC. Our OIG leadership team has also met to discuss the current and future challenges and risks facing the Corporation, using the Corporation's own enterprise process model as a guide. We have also paid close attention to events as they unfolded in the financial services industry and to concerns and priorities of Members of the Congress, as expressed in Congressional hearings. We meet regularly with other financial and regulatory inspectors general to understand broader risks and corresponding mitigation plans. All of these communications assist in focusing our body of work on the most significant risk areas.

Our business plan has historically been a blueprint for our work throughout the year. However, we always cautioned that that we would modify the plan to remain responsive to unforeseen issues or requests requiring our attention. This is precisely what occurred during the months that we were formulating our plans for FY 2009. Worsening conditions in the economy over the spring and summer months, prompted largely by risky mortgage lending and related practices, culminated in July, with the failure of IndyMac Bank, FSB, in Pasadena California, the largest bank failure up until that time—causing an estimated \$10.7 billion loss to the Deposit Insurance Fund. Credit markets tightened, and the Secretary of the Treasury developed a plan to address the economic unrest. That plan was debated and modified by the Congress and signed into law by the President on October 3, 2008 as the Economic Stabilization Act of 2008. Additional unprecedented steps have been taken since then to address the problems in the financial services sector by using taxpayer funds to revive financial institutions and restore order to credit markets. These include actions by the Treasury Department, the Federal Reserve, and the FDIC.

The current financial crisis has taken a toll on the FDIC. In a press release dated February 26, 2009, the FDIC reported that institution earnings declined 83.9 percent from 2007, the lowest annual total since 1990. The release further stated that 12 FDIC-insured

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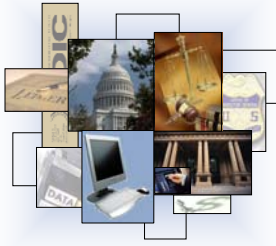
institutions failed during the fourth quarter of 2008, and one banking organization received assistance. In total during 2008, 25 insured institutions failed. The FDIC's "Problem List" grew during the fourth quarter from 171 to 252 institutions, the largest number since the middle of 1995. Total assets of problem institutions increased from \$115.6 billion to \$159 billion. In preparing its 2009 corporate budget, one of the FDIC's assumptions is a continuing high level of failure activity. Although we cannot provide a precise estimate, with the preceding information in mind, we expect the volume of failures to be steady during FY 2009 and into FY 2010. For failures of a certain dollar threshold at FDIC-supervised institutions, the OIG is required by statute to conduct material loss reviews (MLRs) assessing the causes of failure and the FDIC's supervision of the institution.

As the events in the financial services industry have significantly impacted the FDIC mission and operations, they have had a corresponding impact on every facet of the OIG's operations. We have been forced to rethink our priorities, reevaluate our capacity to address ever-emerging issues, and readjust our planning efforts. Thus, our business plan for 2009 is somewhat more limited in terms of the assignments and projects that we will undertake throughout the coming year, largely due to our MLR workload. We have approached our planning on a shorter-term, more dynamic basis, as circumstances have been changing, and will continuously monitor and then update our plan accordingly. Our overall strategic goals remain valid, and we have articulated performance goals that will guide our efforts for the foreseeable future. However, now more than ever, we must remain responsive to the changing environment and our guiding principle will be flexibility. This flexibility will manifest itself in the nature of the work we conduct—assignments may be of shorter duration than in the past, the cross-functional resources we assign to projects—auditors, evaluators, and investigators are working in teams, and the approaches we take in conducting work and reporting results—some assignments may be more modular, and in the interest of timely reporting of significant findings; we may issue interim reports or memoranda on our work rather than waiting until all aspects of an assignment have been completed; or produce summary reports capturing trends that we see emerging. To leverage resources and expertise, we plan to undertake a number of joint projects with the other financial regulatory IGs. We will communicate continuously with FDIC management and other stakeholders throughout the course of our work.

With respect to the OIG's internal activities, we will continue a number of key efforts to ensure effective management and security of OIG resources; quality and efficiency of audits evaluations, investigations, and other activities; professional development and training; strong working relationships; and effective risk management activities. Most importantly, we will do all we can to ensure that we have sufficient resources and that our staff is positioned to add maximum value, offer unique and independent perspectives, and play a key part in helping to resolve the current crisis and restore stability and confidence to the banking system.

The future holds many challenges for the FDIC and for the OIG. My office stands ready to address those challenges, and we are committed to helping the FDIC as it tackles the difficult issues of these uncertain and troubling times.

/Signed/  
Jon T. Rymer  
Inspector General



# **Mission, Vision, Goals, Means, and Strategies**

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## ***Mission and Vision***

The FDIC OIG is an independent and objective unit established under the Inspector General Act of 1978, as amended (IG Act). The OIG's mission is to promote the economy, efficiency, and effectiveness of FDIC programs and operations, and protect against fraud, waste, and abuse to assist and augment the FDIC's contribution to stability and public confidence in the nation's financial system. In carrying out its mission, the OIG conducts audits, evaluations, and investigations; reviews existing and proposed legislation and regulations; and keeps the FDIC Chairman and the Congress currently and fully informed of problems and deficiencies relating to FDIC programs and operations.

In addition to the IG Act, the OIG also has statutory responsibilities to perform material loss reviews of failed FDIC-supervised depository institutions under the provisions of the Federal Deposit Insurance Act and to evaluate the FDIC's information security program and practices under the provisions of the Federal Information Security Management Act of 2002. Under Section 522 of the Consolidated Appropriations Act of 2005, we are also required to evaluate and report on privacy and data protection matters.

Our vision is to be a quality-focused FDIC team that promotes excellence and trust in service to the Corporation and the public interest.

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## ***Strategic Goals and Performance Measures***

The OIG has reviewed the FDIC operating environment looking at long-term and short-term issues facing the Corporation, as well as areas where significant change has occurred or is occurring. As part of the FDIC's annual reporting process, we develop "Management and Performance Challenges" reflecting significant issues that the Corporation faces in carrying out its mission. We also meet with congressional staff and monitor the issues facing the Congress in its hearings and reports. The OIG communicates regularly with representatives from other OIGs of financial regulatory agencies, the Government Accountability Office (GAO), regulatory agency officials, and congressional staff. We also maintain ongoing dialogue with the FDIC's senior leadership and have met with FDIC executives to discuss their areas of challenge and concern for 2009. We believe that this process has validated OIG strategic goals that are mission-related and outcome-oriented, and that will contribute to the achievement of the FDIC's mission.

The OIG has established six strategic goals. Five of these strategic goals, which are our external goals, relate to the FDIC's programs and activities. These goals are as follows:

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The OIG will

- Assist the FDIC to ensure the nation's banks operate safely and soundly.
- Help the FDIC maintain the viability of the insurance fund.
- Assist the FDIC to protect consumer rights and ensure customer data security and privacy.
- Help ensure that the FDIC is ready to resolve failed banks and effectively manages receiverships.
- Promote sound governance and effective stewardship and security of human, financial, information technology, and physical resources.

In addition, we have established a sixth (internal) strategic goal:

The OIG will

- Build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships.

### **Performance Measures**

We have developed qualitative performance measures that reflect mission-related goals and outcomes. These complement our quantitative performance measures. Each qualitative performance goal includes key efforts representing ongoing work or work to be undertaken during 2009 in support of the goal. We will measure our success in meeting our qualitative goals by having OIG senior management assess the extent to which we accomplish the work described in the key efforts under each goal. As part of our assessment, senior management will consider the amount of work conducted and the results and recommendations made for each key effort, and then determine whether the overall body of work produced adequately achieves or addresses the related goal.

We are also continuing to use quantitative measures that emphasize outcomes and results. These measures include financial benefits resulting from our audits, evaluations, and investigations; positive changes resulting from our recommendations (e.g., improved FDIC policies, practices, processes, systems, or controls); investigation actions (e.g., indictments, convictions, employee actions); recommendations implemented; and timeliness and cost-effectiveness of our work and related products.

Together, our qualitative and quantitative performance measures will help us determine the degree to which the OIG's work provides timely, quality support to the Congress, the Chairman, other FDIC officials, the banking industry, and the public. We will periodically assess the results of our performance and the appropriateness of our performance measures and goals, and make changes, as warranted.

### **OIG Resources Management**

Under Goal 6, our plan presents a number of initiatives to improve the quality and effectiveness of OIG processes and products. Our key efforts have a strategic importance for the OIG to ensure that we produce high-quality work, operate effectively, maintain our independence, and sustain the positive working relationships that we have established with our stakeholders.

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## *Means and Strategies*

To achieve our strategic and performance goals, we provide objective, fact-based information and analysis to the Congress, the FDIC Chairman, other FDIC officials, and the Department of Justice. This effort typically involves our audits, evaluations, or criminal investigations conducted pursuant to the IG Act and in accordance with applicable professional standards. We also make contributions to the FDIC in other ways, such as reviewing and commenting on proposed corporate policies and draft legislation and regulations; participating as advisors in joint projects with management; providing technical assistance and advice on various issues such as information technology, strategic planning, risk management, and human capital; and participating in internal FDIC conferences and seminars.

In planning and budgeting our resources, we use an enterprise-wide risk assessment and planning process that considers current and emerging industry trends, and corporate programs, operations, and risks. Our areas of audit and evaluation coverage for the coming year are based in part on the OIG's assessment of risks to the FDIC in meeting its strategic goals and objectives. This risk-based assessment process is linked to the Corporation's program areas and the OIG's identification of management and performance challenges in those areas. In formulating our planned work for fiscal year 2009, we are particularly attuned to the activities in the stressed financial services industry, currently the key driver in our planning. We also receive input from senior FDIC management and members of the FDIC Audit Committee, as well as the Congress.

Conducting investigations of activities that may harm or threaten to harm the operations or integrity of the FDIC and its programs is a key activity for achieving our goals. Our cases involve fraud at financial institutions, obstruction of FDIC examinations, misrepresentations of deposit insurance coverage, identity theft crimes, concealment of assets by FDIC debtors, or criminal or other serious misconduct on the part of FDIC employees or contractors. Over the past year or so, we have seen a substantial increase in our cases related to mortgage fraud. In conducting our investigations, we coordinate and work closely with U.S. Attorneys' Offices, other law enforcement organizations, and FDIC divisions and offices. The OIG also operates an Electronic Crimes Unit (ECU) and laboratory in Washington, D.C. The ECU is responsible for conducting computer-related investigations and providing computer forensic support to investigations nationwide. We also manage the OIG Hotline for FDIC employees, contractors, and others to report allegations of fraud, waste, abuse, and mismanagement via a toll-free number or e-mail.

Another means of ensuring we achieve our goals is to maintain positive working relationships with the Congress, the Chairman, FDIC officials, and other OIG stakeholders. We provide timely, complete, and high-quality responses to congressional inquiries and communicate regularly with the Congress about OIG work and its conclusions. Also, the OIG communicates with the Chairman, Vice Chairman, other Board Members, and senior executives through briefings about ongoing and completed work and is a regular participant at Audit Committee meetings. The OIG also places a high priority on building strong alliances with GAO and the Council of the Inspectors General on Integrity and Efficiency, and other financial regulatory agencies' Offices of Inspector General, in particular.

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## **Human Capital**

The OIG's employees are our most important resource for accomplishing our mission and achieving our goals. For that reason, we strive to operate a human resources program that attracts, develops, motivates, rewards, and retains a highly skilled, diverse, and capable staff.

The OIG staff is comprised of auditors, criminal investigators, attorneys, program analysts, computer specialists, and administrative personnel. The OIG staff holds numerous advanced educational degrees and possesses a number of professional licenses and certificates. The OIG encourages staff to continue professional development and provides access to professional and banking industry educational opportunities. To maintain professional proficiency, each of our staff attains continuing professional education and other training annually.

The OIG downsized its staff for several years in response to changes in the banking industry that resulted in bank consolidations and improved financial health and the near completion of resolutions of failed institutions during the banking and thrift crises of the 1980s and early 1990s. Calendar year 2008 has seen an increase in the number of institution failures and the number of institutions on the Corporation's Watch List. The OIG has experienced a corresponding upswing in mandatory failure-related workload that has impacted every component of our office. Overall OIG staffing will have decreased from the authorized level of 190 in fiscal year 2003 to an authorized level of 122 in fiscal year 2009. We will closely monitor our resource needs in light of the new challenges brought on by the dynamic nature of current events and the FDIC's increased resolution and receivership activities and take all steps necessary to leverage our resources and ensure we can continue to meet workload demands through OIG staffing and supplemental contractor resources.

## **Information Technology**

We strive to closely link information technology (IT) planning and investment decisions to our mission and goals, thus helping ensure that OIG managers and staff have the IT tools and services they require to successfully and productively perform their work. We want to enable our managers and staff, through reliable and modern technology, to maximize productivity and responsiveness. To help realize this goal and vision, our strategy is to pursue IT solutions that optimize our effectiveness and efficiency, connectivity, reliability, and security, and employ best practices in managing our IT systems, services, and investments. In 2009, we will continue to explore ways to leverage the various IT resources of our component offices. Given that we are handling an increasing volume of highly sensitive information, we will focus on ensuring the security of the OIG's systems and infrastructure.

## **Relationship of the OIG to the FDIC**

The IG Act, as amended, makes the OIG responsible for keeping both the FDIC Chairman and the Congress fully and currently informed about problems and deficiencies relating to FDIC programs and operations. This dual reporting responsibility makes our role unique at the FDIC and can present a number of challenges for establishing and maintaining an effective working relationship with management. Although we are an integral part of the Corporation, unlike any other FDIC division or office, our legislative underpinning requires us to operate as an independent and objective oversight unit at the

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same time. As such, a certain amount of tension with the Corporation may be inherent in the nature of our mission. Notwithstanding, the OIG has established a cooperative and productive relationship with the Corporation by fostering open and honest communication with all levels of FDIC leadership and management; building relationships based upon mutual respect; conducting our work in an objective and professional manner; and recognizing and addressing the risks, priorities, and needs of the FDIC.



# FDIC Office of Inspector General

## Business Plan Framework

### (2009 – 2014)

#### *VISION*

*The Office of Inspector General is a quality-focused FDIC team that promotes excellence and trust in service to the Corporation and the public interest.*

#### *MISSION*

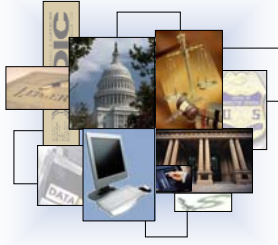
*The Office of Inspector General promotes the economy, efficiency, and effectiveness of FDIC programs and operations, and protects against fraud, waste, and abuse, to assist and augment the FDIC's contribution to stability and public confidence in the nation's financial system.*

#### **STRATEGIC GOALS**

<b><u>Safety &amp; Soundness</u></b>	<b><u>Insurance</u></b>	<b><u>Consumer Protection</u></b>	<b><u>Receivership Management</u></b>	<b><u>FDIC Resources Management</u></b>	<b><u>OIG Resources Management</u></b>
Assist the FDIC to ensure the nation's banks operate safely and soundly	Help the FDIC maintain the viability of the insurance fund	Assist the FDIC to protect consumer rights and ensure customer data security and privacy	Help ensure that the FDIC is ready to resolve failed banks and effectively manages receiverships	Promote sound governance and effective stewardship and security of human, financial, IT, and physical resources	Build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships

#### **FY 2009 PERFORMANCE GOALS**

<ul style="list-style-type: none"> <li>▪ Help ensure the effectiveness and efficiency of the FDIC's supervision program</li> <li>▪ Investigate and assist in prosecuting bank secrecy act violations, money laundering, terrorist financing, fraud, and other financial crimes in FDIC-insured institutions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluate corporate programs to identify and manage risks that can cause losses to the fund</li> </ul>	<ul style="list-style-type: none"> <li>▪ Contribute to the effectiveness of the Corporation's efforts to ensure compliance with consumer protections at FDIC-supervised institutions</li> <li>▪ Support corporate efforts to promote fairness and inclusion in the delivery of products and services to consumers and communities</li> <li>▪ Conduct investigations of fraudulent representations of FDIC affiliation or insurance that negatively impact public confidence in the banking system</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluate the FDIC's plans and systems for managing bank resolutions</li> <li>▪ Investigate crimes involved in or contributing to the failure of financial institutions or that lessen or otherwise affect recoveries by the Deposit Insurance Fund involving restitution or otherwise.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluate corporate efforts to manage human resources and operations efficiently, effectively, and economically</li> <li>▪ Promote integrity in FDIC internal operations</li> <li>▪ Promote alignment of IT with the FDIC's business goals and objectives</li> <li>▪ Promote IT security measures that ensure the confidentiality, integrity, and availability of corporate information</li> <li>▪ Promote personnel and physical security</li> <li>▪ Promote sound corporate governance and effective risk management and internal control efforts</li> </ul>	<ul style="list-style-type: none"> <li>▪ Effectively and efficiently manage OIG human, financial, IT, and physical resources</li> <li>▪ Ensure quality and efficiency of OIG audits, evaluations, investigations and other projects and operations</li> <li>▪ Encourage individual growth and strengthen human capital management and leadership through professional development and training</li> <li>▪ Foster good client, stakeholder, &amp; staff relationships</li> <li>▪ Enhance OIG risk management activities</li> </ul>
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# **Management and Performance Challenges for the Federal Deposit Insurance Corporation**

Under the Reports Consolidation Act, the OIG is required to identify the most significant management and performance challenges facing the Corporation and provide its assessment to the Corporation for inclusion in its annual performance and accountability report. The OIG conducts this assessment yearly and identifies a number of specific areas of challenge facing the Corporation at the time. In identifying the challenges, we keep in mind the Corporation's overall program and operational responsibilities; financial industry, economic, and technological conditions and trends; areas of congressional interest and concern; relevant laws and regulations; the Chairman's priorities and corresponding corporate goals and the ongoing activities to address the issues involved. Taking time annually to reexamine the corporate mission and priorities as the OIG identifies the challenges helps in planning assignments and directing OIG resources to key areas of risk. This year's challenges, in particular, provide important background and perspective for the assignments that the OIG has undertaken and intends to undertake during the year.

Unprecedented events and turmoil in the economy and financial services industry have impacted every facet of the FDIC's mission and operations. In looking at the current environment and anticipating to the extent possible what the future holds, the Office of Inspector General (OIG) believes the FDIC faces challenges in the areas listed below. We would also point out that the Administration and the Congress continue to broadly consider a number of new programs to restore stability in the financial system and strengthen the economy. If the FDIC were to be made responsible for any or certain aspects of such programs, it could also be faced with a set of corresponding new challenges. While the Corporation's most pressing priority may be on efforts to restore and maintain public confidence and stability, as outlined below, challenges will persist in the other areas described as the Corporation carries out its mounting resolution and receivership workload, meets its deposit insurance responsibilities, continues its supervision of financial institutions, protects consumers, and manages its internal workforce and other corporate resources in the months ahead. The Corporation will face daunting challenges as it carries out its longstanding mission, responds to new demands, and plays a key part in shaping the future of bank regulation.

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## ***Restoring and Maintaining Public Confidence and Stability in the Financial System***

The FDIC is participating with other regulators, the Congress, banks, and other stakeholders in multiple new and changing initiatives, each with its unique challenges and risks, to address current crises. The initiatives have been formed in response to crisis conditions, are very large in scale, and the FDIC's corresponding governance and supervisory controls, in many cases, are still under development. Among the initiatives are the following:

- Temporarily increasing basic deposit insurance coverage limits from \$100,000 to \$250,000 per depositor through December 31, 2009. There is also a possibility of making this increase permanent to help restore public confidence and stability.
- Implementing the Temporary Liquidity Guarantee Program. Designed to free up funding for banks to make loans to creditworthy businesses and borrowers, this program is entirely funded by industry fees that totaled \$3.4 billion as of year-end. This program (1) guarantees senior unsecured debt of insured depository institutions and most depository institution holding companies and (2) guarantees noninterest bearing transaction deposit accounts in excess of deposit insurance limits. The guarantees can go out as many as 3 years under the current program, and we understand that the Corporation has proposed the guarantees be extended to 10 years if they are collateralized by new loans. At the end of December 2008, \$224 billion in FDIC-guaranteed debt was outstanding, and more than half a million deposit accounts received over \$680 billion in additional FDIC coverage through the transaction account guarantee.
- Engaging in loan modification programs at IndyMac Federal Bank, for example, intended to achieve affordable and sustainable mortgage payments for borrowers and increase the value of distressed mortgages by rehabilitating them into performing loans. In the case of IndyMac, as of the end of 2008, the FDIC had sent approximately 30,000 proposals to borrowers and about 8,500 had accepted. Other institutions have agreed to implement loan modification programs as part of their financial stability agreements with the FDIC and other financial regulatory agencies.
- Processing applications for those FDIC-supervised institutions applying to the Department of the Treasury's Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP). This program authorizes the Treasury to purchase up to \$250 billion of senior preferred shares from qualifying insured depository institutions. As of January 15, 2009, the FDIC had received over 1,600 applications requesting nearly \$34 billion in TARP funding.
- Participating with the other federal bank regulatory agencies in conducting stress testing and a capital program to ensure that the largest institutions have sufficient capital to perform their role in the financial system on an on-going basis and can support economic recovery, even in more severe economic environments.

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With so many new initiatives now set in motion to restore confidence and stability, multiple and sometimes interrelated new risks will present themselves, and demands will likely be placed on FDIC systems, processes, policies, and human resources to successfully manage and carry out the initiatives and achieve intended results. In that connection, the FDIC needs to ensure that institutions themselves carefully track the use of funds made available through federal programs and provide appropriate information on the use of such funds to the FDIC, the Congress, and the public. Such efforts will require vigilant oversight and effective controls to ensure transparency, accountability, and successful outcomes. The Treasury Secretary's February 10, 2009 announcement of the Administration's Financial Stability Plan also suggests that, in the months ahead, the FDIC may be further involved in new activities to restart the flow of credit, strengthen the financial system, and provide aid for homeowners and small businesses.

Additionally, continuous coordination and cooperation with the other federal regulators and parties throughout the banking and financial services industries will be critical in the months ahead. Given recent attention on the financial regulatory system in the United States and its ability to keep pace with major developments and risks in financial markets and products, the FDIC, along with other regulators, will likely be subject to increased scrutiny and possible corresponding regulatory reform proposals that may have a substantial impact on the regulatory entities.

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### ***Resolving Failed Institutions***

A key aspect of the FDIC mission is to plan and efficiently handle the resolutions of failing FDIC-insured institutions and to provide prompt, responsive, and efficient administration of failing and failed financial institutions in order to maintain confidence and stability in our financial system. The resolution process involves valuing a failing federally insured depository institution, marketing it, soliciting and accepting bids for the sale of the institution, considering the least costly resolution method, determining which bid to accept, and working with the acquiring institution through the closing process. The receivership process involves performing the closing function at the failed bank; liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims. Challenges include the following:

- Twenty-five financial institutions failed during 2008, with total assets at failure of \$369.5 billion and total estimated losses to the Deposit Insurance Fund of approximately \$15.6 billion.
- Large, complex failures and facilitated transactions, such as IndyMac Bank, F.S.B. (estimated \$10.7 billion loss to the insurance fund) and Washington Mutual Bank (\$307 billion in assets) are challenging to resolve.
- The FDIC's problem institution list grew--from 171 to 252 during the fourth quarter of 2008--and total assets of problem institutions increased from \$115.6 billion to \$159 billion, indicating a probability of more failures to come and an increased asset disposition workload.

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- A reliable, accurate claims determination system is essential to resolving failures in the most cost-effective and least disruptive manner, and the Corporation is in the process of developing such a system.
  - The Corporation needs to ensure that receivership and resolution processes, negotiations, and decisions made related to the future status of the failed or failing institutions are marked by fairness, transparency, and integrity.
  - The FDIC is retaining large volumes of assets as part of purchase and assumption agreements with institutions that are assuming the insured deposits of failed institutions. The FDIC will be responsible for disposing of the assets over an extended period of time. The Division of Resolutions and Receiverships' assets in inventory totaled about \$15 billion as of the end of 2008.
  - Some FDIC-facilitated resolution and asset disposition agreements include loss-share provisions that involve pools of assets worth billions of dollars and extend up to 10 years. Citigroup, for example, involves \$306 billion in loans and securities protected by loss-share provisions.

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### *Ensuring the Viability of the Deposit Insurance Fund (DIF)*

Federal deposit insurance remains at the core of the FDIC's commitment to maintain stability and public confidence in the Nation's financial system. A priority for the FDIC is to ensure that the DIF remains viable to protect insured depositors in the event of an institution's failure. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds. A number of important factors have affected and will continue to affect the solvency of the fund, as follows:

- A higher level of losses for actual and anticipated failures caused the DIF balance to decrease during the fourth quarter 2008 by \$16 billion to \$19 billion (unaudited) as of December 31, 2008.
- Communication and coordination with other federal regulators is vital to the FDIC as deposit insurer in its efforts to protect and administer the DIF.
- Off-site monitoring systems and processes must be effective and efficient to mitigate risks to the funds to the fullest extent possible.
- The FDIC relies to varying degrees on call report data for monitoring the financial institutions it insures, assessing premiums for insurance, determining guarantees it provides for deposits and debt, and processing institution applications under the TARP's CPP. The Corporation needs to ensure the reliability and accuracy of call report data reflecting an institution's financial condition in the interest of making good decisions associated with risk at institutions and preventing potential losses to the DIF.
- In February 2009, the FDIC Board took action to ensure the continued strength of the DIF by imposing a one-time emergency special assessment on institutions of 20 basis points—or 20 cents on every \$100 of domestic deposits, to be paid on September 30, 2009. The Chairman subsequently considered lowering the assessment to 10 basis points, while seeking to expand the Corporation's line of

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credit with the Treasury Department from its current \$30 billion. The Congress is considering a permanent increase to \$100 billion, and authority for the FDIC to request a temporary increase up to \$500 billion with required approval from the Federal Reserve, the Treasury Department, and the President. The Board also set assessment rates that generally increase the amount that institutions pay each quarter for insurance and made adjustments that improve how the assessment system differentiates for risk. The FDIC will need to carefully manage these changes to the assessment process.

- The Corporation adopted a restoration plan in October 2008 to increase the reserve ratio to the 1.15 percent threshold within 5 years. The ratio declined from 0.76 percent at September 30, 2008 to 0.40 percent at year-end. In February 2009, the Board invoked the “extenuating circumstances” provision of the FDIC Act and voted to extend the restoration plan horizon to 7 years.
- The Corporation will be continuing to play a leadership role in its work with global partners on such matters as Basel II to ensure strong regulatory capital standards to protect the international financial system from problems that might arise when a major bank or series of banks fail.

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### ***Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program***

The Corporation’s bank supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. As of December 31, 2008, the FDIC was the primary federal regulator for 5,098 FDIC-insured, state-chartered institutions that were not members of the Federal Reserve System (generally referred to as “state non-member” institutions). The Department of the Treasury (the Office of the Comptroller of the Currency and the Office of Thrift Supervision) or the Federal Reserve Board supervise other banks and thrifts, depending on the institution’s charter.

The examination of the banks that it regulates is a core FDIC supervisory function. The Corporation also has back-up examination authority to protect the interests of the deposit insurance fund for about 3,200 national banks, state-chartered banks that are members of the Federal Reserve System, and savings associations. In the current environment, efforts to continue to ensure safety and soundness and carry out the examination function will be challenging in a number of ways.

- The Corporation needs to ensure it has sufficient resources to keep pace with its rigorous examination schedule and the needed expertise to address complex transactions and new financial instruments that may affect an institution’s safety and soundness.
- In light of the many and varied new programs that financial institutions may engage in, the FDIC’s examination workforce will be reviewing and commenting on a number of new issues when they assign examination ratings—both in terms of risk management and compliance examinations. For example, they will need to analyze banks’ compliance with TARP CPP securities purchase agreements, use of TARP funding, and use of capital subscriptions to promote lending to creditworthy borrowers and encourage foreclosure prevention efforts.

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- The FDIC's follow-up processes must be effective to ensure institutions are promptly complying with any supervisory enforcement actions resulting from the FDIC's risk-management examination process.
  - The FDIC must seek to minimize the extent to which the institutions it supervises are involved in or victims of financial crimes and other abuse. The rapid changes in the banking industry, increase in electronic and on-line banking, growing sophistication of fraud schemes, and the mere complexity of financial transactions and financial instruments all create potential risks at FDIC-insured institutions and their service providers. These risks could negatively impact the FDIC and the integrity of the U.S. financial system and contribute to institution failures if existing checks and balances falter or are intentionally bypassed. FDIC examiners need to be alert to the possibility of fraudulent activity in financial institutions, and make good use of reports, information, and other resources available to them to help detect such fraud.

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### ***Protecting and Educating Consumers and Ensuring an Effective Compliance Program***

The FDIC's efforts to ensure that banks serve their communities and treat consumers fairly continue to be a priority. The FDIC carries out its role by educating consumers, providing them with access to information about their rights and disclosures that are required by federal laws and regulations, and examining the banks where the FDIC is the primary federal regulator to determine the institutions' compliance with laws and regulations governing consumer protection, fair lending, and community investment. It has challenging initiatives underway to see to this end.

- The FDIC's compliance program, including examinations, visitations, and follow-up supervisory attention on violations and other program deficiencies, is critical to ensuring that consumers and businesses obtain the benefits and protections afforded them by law.
- The FDIC will continue to conduct Community Reinvestment Act (CRA) examinations in accordance with the CRA, a 1977 law intended to encourage insured banks and thrifts to help meet the credit needs of the communities in which they are chartered to do business, including low- and moderate-income neighborhoods, consistent with safe and sound operations.
- As part of the FDIC's 75<sup>th</sup> anniversary year, the Corporation conducted a nationwide financial education program to promote the importance of personal savings and responsible financial management and launched a nationwide campaign to help consumers learn about the benefits and limitations of deposit insurance. It will continue such endeavors to disseminate updated information to all consumers, including the unbanked and underbanked, going forward.
- To protect consumer privacy, the FDIC also conducts periodic examinations to verify that institutions comply with laws designed to protect personal information. The FDIC evaluates the adequacy of financial institutions' programs for securing customer data and may pursue informal or formal supervisory action if it finds a deficiency.

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## *Effectively Managing the FDIC Workforce and Other Corporate Resources*

The FDIC must effectively manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, IT, and physical resources. The FDIC will face challenges as it carries out activities to promote sound governance and effective stewardship of its core business processes and resources.

- The FDIC continues work to ensure it has a sufficient, engaged, skilled, flexible workforce to handle its increased and changing workload. The Board approved an authorized FDIC staffing level of 6,269, reflecting an increase of 1,459 positions from the staffing level authorized at the beginning of 2008. These staff—mostly temporary—will perform bank examinations and other supervisory activities to address bank failures, including managing and selling assets retained by the FDIC when a failed bank is sold. The Board also approved opening a temporary West Coast Satellite Office for resolving failed financial institutions and managing the resulting receiverships. Rapidly hiring and training so many new staff along with expanded contracting activity will place heavy demands on the Corporation's human resources staff and operations.
- The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Such risks need to be communicated throughout the Corporation and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved.
- With a new Administration and anticipated retirements in the executive ranks of the FDIC, Board make-up and composition of the FDIC's senior leadership team could be altered at a tumultuous time when significant policy, operational, and other issues warrant the high-level focus and attention of the Board members and reliance on the institutional and historical knowledge of senior FDIC management.
- The Deposit Insurance Fund totaled \$19 billion at the end of the fourth quarter 2008, compared to \$52 billion at year-end 2007. FDIC investment policies and controls must ensure that these funds be invested in accordance with applicable requirements and sound investment strategies.
- The Board approved a \$2.24 billion 2009 Corporate Operating Budget, approximately \$1.03 billion higher than for 2008. The FDIC's operating expenses are largely paid from the insurance fund, and consistent with sound corporate governance principles, the Corporation must continuously seek to be efficient and cost-conscious.
- Ensuring the integrity, availability, and appropriate confidentiality of bank data, personally identifiable information, and other sensitive information in an environment of increasingly sophisticated security threats and global connectivity can pose challenges. Protecting the information that the FDIC possesses in its supervisory, resolution, and receivership capacities requires a strong records management program, a correspondingly effective enterprise-



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wide information security program, and continued attention to ensuring physical security for all FDIC resources.

- The FDIC awarded approximately \$500 million in contracts during 2008 as of September 30. Effective and efficient processes and related controls for identifying needed goods and services, acquiring them, and monitoring contractors after the contract award must be in place and operate well.
- With increased resolution and receivership workload, the level of FDIC contracting for activities such as property management and marketing, loan servicing, due diligence, subsidiary management, financial advisory services, and legal services will increase significantly, and effective controls must be in place and operational. According to the Division of Resolutions and Receiverships, as of October 1, 2008, it had awarded \$225.9 million in contracts during 2008, compared to \$37.9 million in 2007.

The FDIC OIG is committed to its mission of assisting and augmenting the FDIC's contribution to stability and public confidence in the nation's financial system. Now more than ever, we have a crucial role to play to help ensure economy, efficiency, effectiveness, integrity, and transparency of programs and associated activities, and to protect against fraud, waste, and abuse that can undermine the FDIC's success. Our management and performance challenges evaluation is based primarily on the FDIC's operating environment and available information as of the end of 2008, unless otherwise noted. We will continue to communicate and coordinate closely with the Corporation, the Congress, and other financial regulatory OIGs as we address these issues and challenges. Results of OIG work will be posted at [www.fdicig.gov](http://www.fdicig.gov).



## Inventory of OIG Assignments

The OIG will conduct assignments, or key efforts, to address the most significant challenges the Corporation is facing, with a planned resource emphasis on the conduct of material loss reviews and other statutorily mandated work, including an evaluation of information security practices in accordance with the Federal Information Security Management Act of 2002 (FISMA), and Federal Information Systems Controls Audit Manual (FISCAM)-related work in connection with the Government Accountability Office's financial statement audit of the Deposit Insurance Fund and the FSLIC Resolution Fund. Additional resources will principally be devoted to key efforts addressing the new programs and initiatives that the FDIC has undertaken in response to turmoil in the financial services industry and economic uncertainties, as previously discussed. We will perform other assignments to the extent possible to provide oversight of the ongoing operations and programs of the Corporation as it carries out its mission. Our key efforts to address these challenges align with our strategic and performance goals, as shown in the listing that follows. As the operating environment at the FDIC is so fluid, so is our plan dynamic, and we will continuously monitor ongoing and planned coverage and priorities and adjust our audit, evaluation, and investigative workload as circumstances warrant.

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### *Goal 1: Safety and Soundness*

#### *Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly*

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

#### **Key Efforts:**

- **Material Loss Reviews:** (Audits/one Evaluation) The OIG of the respective primary federal regulator is required by Section 38(k) of the FDI Act to perform a material loss review and report on failures of insured depository institutions resulting in losses to the Deposit Insurance Fund (DIF) which exceed the greater of \$25 million or 2 percent of the institution's assets. Material loss reviews must be completed within 6 months from the time it is determined that a failure will result in a material loss to the insurance fund. The objectives of these reviews are to: (1) determine the causes of the financial institution's failure and resulting material loss to the DIF and (2) evaluate the FDIC's supervision of the

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institution, including implementation of the Prompt Corrective Action (PCA) provisions of section 38, in order to make recommendations for preventing such a loss in the future. The FDIC OIG had completed 5 MLRs and had an additional 19 ongoing as of mid-April 2009.

- **Material Loss Review Summary Reports:** These reports will summarize OIG observations on the major causes, trends, and common characteristics of failures resulting in a material loss to the Deposit Insurance Fund. We will make recommendations applicable to the FDIC's supervision of the institutions, including implementation of the PCA provisions of section 38.
- **Close coordination with other OIGs regarding material loss review work and related issues:** A February training conference addressed the examination process and focused on the Uniform Bank Performance Reports, CAMELS components, internal controls, and enforcement actions. The training addressed the MLR process, including recent MLR reports, MLR tools, resolution and receivership processes, economic research, and the OIG's investigative function with respect to closed banks. In another coordinated effort, the FDIC OIG joined with the Federal Reserve Board (FRB) and Treasury IGs and proposed increasing the MLR threshold, which requires Congressional action. To that end, a joint letter was sent to the Senate Banking and House Financial Services Committees. (Audit/Evaluation/Investigation)
- **Brokered Deposit Waiver Process:** The audit objective is to assess the FDIC's brokered deposit waiver process for FDIC-insured institutions. Brokered deposits are receiving considerable attention because of recent bank failures involving excessive reliance by FDIC-insured financial institutions on such deposits to support aggressive asset growth. (Audit)
- **Troubled Asset Relief Program (TARP) Applications—Controls Over the FDIC's Processing of Capital Purchase Program Applications:** The objective of the evaluation is to assess the FDIC's process and controls associated with reviewing applications from FDIC-supervised institutions to participate in the TARP Capital Purchase Program and forwarding approval recommendations to the Department of the Treasury. (Evaluation)
- **Close coordination as member of Special IG for TARP Working Group:** The FDIC OIG is an active member of the TARP IG Working Group, consisting of the TARP IG and IGs from the FDIC, Federal Reserve Board, Department of the Treasury, Securities and Exchange Commission, Federal Housing Finance Agency, Department of Housing and Urban Development, Treasury IG for Tax Administration, and Small Business Administration, in consultation with GAO. This group will coordinate to leverage knowledge and resources, avoid duplication of effort, and handle matters involving jurisdiction. (OIG-wide effort.)
- **Regulatory Oversight and Disposition of Washington Mutual (WaMu):** The overall objective of this evaluation will be to determine the events leading to the need for the FDIC-facilitated transaction, to include (1) evaluating the Office of Thrift Supervision's (OTS) supervision of WaMu, including implementation of PCA provisions of section 38, if required; (2) evaluating the FDIC's supervision and monitoring of WaMu in its role as insurer; and (3) assessing the FDIC's

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resolution process for WaMu to determine whether that process complied with applicable laws, regulations, policies, and procedures. (Joint evaluation review with Department of the Treasury OIG.)

- **Monitoring of Regulatory Restructuring/Modernization Reform Proposals:** In light of concerns raised with respect to the current financial regulatory structure, proposals for reform are under consideration, the OIG will closely monitor such proposals and, as appropriate, offer perspectives based on outcomes of OIG audit, evaluation, and investigative work throughout the year. (OIG-wide effort)

**Investigative activities in support of this goal include the following:**

- Respond to and investigate allegations of fraud and other financial crimes affecting FDIC-insured institutions, referred to the OIG by FDIC, U.S. Attorneys' Offices, other law enforcement agencies, or identified through review and analysis of Suspicious Activity Report (SAR) filings.
- Develop and provide training to FDIC, Federal Financial Institutions Examination Council (FFIEC), and industry officials related to financial and electronic crimes that can threaten FDIC institutions.
- Maintain and continue to refine the OIG's SAR Database to better enable OI to identify and prioritize financial institution fraud cases of significance to the FDIC.
- Coordinate and communicate regularly with the Division of Supervision and Consumer Protection (DSC) and the Legal Division regarding financial institution fraud cases.
- Participate in law enforcement/regulatory task forces and working groups to identify cases warranting FDIC OIG attention, and identify trends and concerns relating to fraud affecting the industry and the banking public.

**Potential Future Areas of Coverage:**

The following topics, emerging principally from the OIG's MLR work, may be further reviewed:

- Concentrations in Acquisition, Development and Construction Loans
- Credit Underwriting and Administration
- Reliance on Wholesale Funding Sources
- Board of Directors Oversight
- Interest Reserves
- Compensation Arrangements
- Sufficiency of the Allowance for Loan and Lease Losses
- Consideration of Risk in Examination Planning and Institution Ratings
- De Novo Institutions
- Prompt Corrective Action Effectiveness

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## **Goal 2: Insurance**

### **Help the FDIC Maintain the Viability of the Insurance Fund**

- Evaluate corporate programs to identify and manage risks that can cause losses to the fund.

#### **Key Efforts:**

- **The FDIC's Corporate Investment Program:** The OIG will conduct an audit of the investment program, the objective of which is to assess the FDIC's controls for ensuring that the Deposit Insurance Fund (DIF) and the National Liquidation Fund (NLF) are managed consistent with the FDIC investment policies approved by the Board of Directors (Board). The audit will use the Government Accountability Office's *Standards for Internal Control in the Federal Government* to evaluate the FDIC's controls. This audit supports the OIG's commitment to management to conduct an independent audit of the corporate investment program every 3 years. (Audit)
- **The FDIC's Controls Related to the Off-site Review List:** The audit objective was to assess DSC's internal controls for performing off-site monitoring of insured depository institutions. The audit focused on DSC's controls related to offsite monitoring of institutions on the Offsite Review List, which identifies financial institutions with 1 or 2 composite ratings and potential problems that pose the risk the institution will be downgraded at the next examination. (Audit)
- **Temporary Liquidity Guaranty Program (TLGP):** The scope of this assignment will include assessing key internal controls pertaining to the FDIC's TLGP, such as program governance, procedures used by examiners to assess understanding and documenting key aspects of the FDIC's TLGP, including program governance, procedures used by examiners to assess program compliance, contingency funding planning, interagency communications, risk management processes, claims processing, management reporting, and information technology controls.
- **FDIC Role in the Monitoring of IndyMac Bank:** At the Chairman's request, this evaluation is focusing on the following overall questions: When did the FDIC become aware of the IndyMac problem; what did the Corporation know and how; and what actions did the Corporation take? Our review is addressing the following specific aspects of monitoring: timing, nature, and accuracy of information that the OTS provided to the FDIC; timing and nature of the FDIC's participation in OTS examinations; the Large Insured Depository Institution program and other off-site monitoring systems; case manager role; internal risk analysis, management, and ratings for deposit insurance purposes. (Evaluation – Chairman's request)

#### **Potential Future Areas of Coverage:**

- Call Report Controls for Accuracy

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### ***Goal 3: Consumer Protection***

#### ***Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy***

- Contribute to the effectiveness of the Corporation’s efforts to ensure compliance with consumer protections at FDIC-supervised institutions
- Support corporate efforts to promote fairness and inclusion in the delivery of products and services to consumers and communities
- Conduct investigations of fraudulent representations of FDIC affiliation or insurance that negatively impact public confidence in the banking system

#### **Key Efforts:**

- **Examination Coverage of Consumer Credit Underwriting Practices for Consumer Loans Not Secured by Real Estate:** The audit objective was to assess the FDIC’s risk management examination coverage of institution underwriting practices for consumer loans not secured by real estate (i.e., Other Consumer Loans, as included in Call Report Schedule RC-C, Item 6.c.). Such loans are used by consumers to finance a variety of purchases, including automobiles, appliances, furniture, home repairs, education costs, medical expenses, and vacations. (Audit)
- **Enforcement Actions for Compliance Violations: Review I--** The objectives were to evaluate: (1) to what extent the FDIC issues formal enforcement actions to address compliance violations and deficiencies. In particular, we assessed the FDIC’s review of Home Mortgage Disclosure Act (HMDA) outlier cases and other fair lending cases, reporting of Equal Credit Opportunity Act (ECOA) and Fair Housing Act (FHA) violations, and referral of findings of discrimination to the Department of Justice (DOJ); (2) The factors, conditions, and circumstances involved in determining whether and what type of enforcement action is initiated; and (3) The efficiency of the FDIC’s process for initiating, reviewing, and issuing formal enforcement actions, particularly fair lending-related referrals or enforcement actions. We also evaluated the compliance examination and enforcement action history of two FDIC-supervised institutions—Fremont Investment and Loan and Miami Valley Bank. **Review II** – As a follow-on, we will perform an analysis of FDIC-supervised institutions using several information sources to identify a population of institutions exhibiting “red flags” that could suggest consumer protection violations such as unfair or deceptive acts and practices.) (Chairman requested--Evaluation)
- **Limited Review of Fremont Investment and Loan:** The Chairman requested that we review Division of Insurance and Research’s analysis of Fremont Investment and Loan to independently confirm whether Fremont Home Mortgage Disclosure Act (HMDA) data showed pricing disparities between minority and white borrowers. (Evaluation)

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**Investigative activities in support of this goal include the following:**

- Work with DSC, the Division of Information Technology and the Legal Division to identify phishing, pharming, and other schemes that prey on the public for purposes of fraud, identity theft, or to disrupt computer operations.
- Refer to appropriate consumer protection staff of call center any relevant public inquiries made to the OIG Hotline.
- Work with the FDIC as it takes advantage of new legislation to strengthen FDIC enforcement authority with regard to individuals that make false representations regarding FDIC-affiliation/insurance and coordinate with the FDIC to implement processes for mutual referral of such allegations for criminal/administrative action.

**Potential Future Areas of Coverage:**

- The FDIC's compliance with least cost test requirements of the FDI Act.

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***Goal 4: Receivership Management***  
***Help Ensure that the FDIC Is Ready to Resolve Failed Banks and Effectively Manages Receiverships***

- Evaluate the FDIC's plans, systems, and controls for managing resolutions and receiverships
- Investigate crimes involved in or contributing to the failure of financial institutions or that lessen or otherwise affect recoveries by the Deposit Insurance Fund involving restitution or otherwise.

**Key Efforts:**

- **IndyMac Conservatorship Governance:** This evaluation will follow up on matters raised in a September 23, 2008 memorandum to the CEO and Receiver-in-Charge of IndyMac Federal Bank, FSB from the IG. That memorandum reported the results of the OIG's review of internal audit and risk management operations in the conservatorship established for the closed thrift, IndyMac Bank, F.S.B. in Pasadena, California. The OIG provided FDIC management supervising IndyMac Federal Bank, FSB with information and suggestions regarding the continuing responsibilities of the conservatorship's internal audit and risk management functions to assist the FDIC in protecting the value of the conservatorship and its assets and the integrity of its operations. (Evaluation)
- **FDIC's Implementation of Loan Modification Program at IndyMac Bank and Oversight of Comparable Programs at Other Institutions:** The first objective of our evaluation is to assess the FDIC's implementation of the Loan Modification Program at IndyMac Federal Bank, FSB, including the number and dollar value of loans modified; measures for gauging program success; qualifying criteria to ensure that modification of loans maximizes their value; and internal controls to detect and prevent participation in the program by those who obtained a loan fraudulently. Our second objective is to determine FDIC steps for monitoring implementation of loan modification programs at

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institutions such as CitiBank and US Bank. (Evaluation—with Congressional interest from Senator Grassley.)

- **FDIC Monitoring of Loss Share Provisions:** The OIG plans coverage of loss share provisions, including those in the assistance agreements with Citigroup and Bank of America, to ensure compliance with all related terms such as those involving asset eligibility and institution management of guaranteed assets. The FDIC Chairman expressed interest in our providing this coverage. We expect this work to be done as a coordinated project by the TARP, Treasury, FRB, and FDIC OIGs. (Evaluation/Audit)
- **Controls over Contracts and Legal Services Agreements Related to Resolution and Receivership Activities:** This evaluation will identify and evaluate controls in place to address the risks presented by a significant increase in resolution and receivership-related contracting activity. The scope of this evaluation will include policies, practices, and existing and planned resolution and receivership contracts, basic ordering agreements, task orders, and legal services agreements in the Division of Resolutions and Receiverships (DRR), the Legal Division, and other divisions, such as the Division of Finance. These issues are of interest to the FDIC Chairman. (Evaluation)
- **Receivership Management Audits:** The OIG is planning coverage of the FDIC’s closing process and its management of assets received from failed financial institutions, including financial reporting of failed institutions and receiverships’ sales activities. DRR has dramatically expanded its receivership management activities and has performed a number of internal reviews of its receivership operations that we will assess in the course of our work. (Audit)

**Investigative activities in support of this goal include the following:**

- Provide a team of OI agents, to include computer forensics agents, to participate in the event of any bank closing where fraud is suspected and aggressively pursue criminal investigations of any fraud that contributed to an institution failure.
- Pursue with DRR/DSC integration in training modules of one or more presentations on OI investigative processes/concerns in the context of bank closings.
- Continue to refine a systematic process for coordination with DSC, DRR, and the Legal Division in the agency’s preparation for potential closings.
- Conduct investigations referred by the Legal Division and DRR of suspected criminal concealment of assets by individuals owing restitution to the FDIC.

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

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



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

#### **Key Efforts:**

- **Corporate Employee Program (CEP):** The objective was to assess the FDIC's efforts to implement the CEP by determining: (1) the number of employees participating and the degree to which they have completed the program, (2) whether the CEP has stated measurements for gauging program success, (3) participant and management views on the benefits and success of the program, and (4) the extent to which the CEP has produced cross-trained employees capable of responding to changes in examination or resolution and receivership priorities. (Evaluation)
- **FISMA Evaluation:** The Federal Information Security Management Act (FISMA) requires federal agencies, including the FDIC, to have an annual independent evaluation performed of their information security program and practices and to report the results of the evaluation to the Office of Management and Budget. The objective of the evaluation is to determine the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with FISMA and related information security policies, procedures, standards (Statutorily Mandated Audit)
- **Implementation of Corrective Actions Related to E-Mail Security:** The audit objectives were to (1) determine whether the control improvements described in the Chief Information Officer's E-mail Security Memorandum are adequate, fully implemented, and operating as intended, and (2) assess DIT's efforts to leverage content filtering technology on corporate e-mail to mitigate the risk of loss of sensitive business data. The audit also assessed DIT's ongoing security improvements and the OIG-recommended enhancements described in OIG report AUD-08-013. (Audit)
- **FISCAM--IT Audit Work in Support of the 2008 Audit of the FDIC's Financial Statements:** Assess (1) the progress FDIC has made in mitigating previously reported information security weaknesses and (2) the effectiveness of the FDIC's controls in protecting the confidentiality, integrity, and availability of its financial systems and information. (Audit)
- **Verification of the FDIC's Data Submissions through the Governmentwide Financial Report System:** This is an attestation engagement whose objective is to verify that summary accounting information prepared using the U.S Standard General Ledger accounts agree with the FDIC's summary account information, prepared using the FDIC's general ledger accounts, and is accurately entered

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into the financial statement modules of the Governmentwide Financial Report System. (Audit)

- **Audit of FDICconnect:** FDICconnect is a secure Web site developed to facilitate electronic communication with FDIC-insured depository institutions. The objective of the audit will be to assess whether the functional capabilities of FDICconnect meet the business needs of the FDIC and whether information security controls provide for adequate confidentiality, integrity, and availability of information and data. (Audit)
- **Controls Over FDIC Mail Handling and Mail Screening Processes:** The objective of the evaluation is to assess the extent to which the FDIC has established mail handling and screening centers, procedures, and measures that are consistent with federal guidelines and leading practices. (DOA-management requested Evaluation)
- **Guard Services Contract and Controls Over Facilities Access:** The objective is to evaluate the extent to which the Corporation has administered guard services in a manner that balances security needs and efficiency, and implemented adequate controls over access to FDIC facilities. (Evaluation)
- **Contract Oversight Management of ARAMARK:** The objective of the audit is to assess key oversight management controls pertaining to the ARAMARK contract. (Audit)
- **Contractor Billing Reviews:** The OIG will audit services related to IPA firm and other DRR contracts, with a particular focus on the allowability and reasonableness of billings. (Audit)
- **Review of the FDIC's Expanded Corporate Administration and Support Activities:** This evaluation will focus on the FDIC's processes and controls in place to address human capital, administrative, IT, workload, and other demands posed by the proposed and actual increases in FDIC staffing and the new programs that the Corporation is undertaking in response to the economic and financial crisis. (Evaluation)

**Investigative activities in support of this goal include the following:**

- Respond to and investigate allegations of crimes and serious misconduct or ethical violations involving FDIC employees and contractors.
- Operate and manage the OIG Hotline, referring to the FDIC any management issues or trends warranting attention.
- Coordinate with the Division of Information Technology (DIT) and Division of Administration with respect to instances of potential computer intrusion and abuse.
- Devote investigative resources, as needed, to ensuring the physical safety and security of FDIC buildings, resources, and workforce in light of potential threats in the current crisis environment.

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***Goal 6: OIG Resources Management  
Build and Sustain A High-Quality Staff, Effective Operations,  
OIG Independence, and Mutually Beneficial Working  
Relationships***

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

**Key Efforts:**

We have a number of initiatives ongoing and planned in support of this goal, including the following:

**Succession Planning**

- Determining retirement/departure trends and planning accordingly

**Hiring Initiatives**

- Additional employees for audit, evaluation, investigator, and administrative support positions, including entry-level staff
- Individuals with specialized banking expertise
- Scholarship for Service Program
- Authority to rehire retired annuitants
- Implementing field office structure by staffing offices at DSC field locations with investigators

**Budget Activities**

- Ongoing oversight and monitoring of 2009 budget and spending
- Revised 2010 budget request based on increased workload, and corresponding coordination activity with the FDIC, OMB, and the Congress

**IT Initiatives**

- SharePoint Project
- Records Management
- STAR Project

**Quality and Efficiency of OIG Work**

- Determining needed staff and expertise for ongoing/planned work and tapping resources from all component offices to meet those needs

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- Determining contractor needs and monitoring and administering the OIG's expert services contract with KPMG
  - Soliciting additional expert services contractor
  - Conducting Quality Control Reviews for audits, evaluations, and investigations

#### **Professional Development and Training**

- Banking Schools
- Comprehensive MLR Training (see earlier)
- Resuming Mentoring Program

#### **Fostering Good Client, Stakeholder, Staff Relationships**

- Meetings and other communications with FDIC senior leadership and management
- Meetings and other communications with FDIC OIG staff
- Council of the Inspectors General on Integrity and Efficiency(CIGIE): active involvement—IG serving as Chair of Audit Committee and member of Inspection and Evaluation Committee, hosting IG community training events and meetings, writing and publishing CIGIE Annual Report, peer review oversight and coordination, assisting in the development of federal auditing standards
- Active Congressional Affairs activity
- Sharing OIG perspectives with banking industry groups, professional organizations, other interested parties

#### **Risk Management Activities**

- Personal Security –OIG Emergency Evacuation Procedures, Floor Marshal training, coordination with DOA
- OIG Control Activities
- Monitoring of assignment progress, priorities, and planning



## Appendix I: Quantitative Performance Measures and Targets

The table below presents our FY 2009 targets for our quantitative performance measures. To establish targets for these measures, we examined what we have been able to achieve in the past and the external factors that influence our work, such as budgetary resources and staffing levels.

Performance Measure	FY 2009 Target
Financial Benefit Return <sup>1</sup>	100%
Other Benefits <sup>2</sup>	75
Past Recommendations Implemented <sup>3</sup>	95%
Complete 100% of audit/evaluation assignments required by statute by the required date.	100%
Audit Assignments Completed Within 30 days of Established Final Report Milestone	90%
Evaluation Assignments Completed Within 30 days of Established Final Report Milestone	90%
Audit Assignments Completed Within 15 Percent of Established Budget	90%
Evaluation Assignments Completed Within 15 Percent of Established Budget	90%
Investigation Actions <sup>4</sup>	200
Closed Investigations Resulting in Reports to Management, Convictions, Civil Actions, or Administrative Actions	80%
Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements	70%
Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case	85%
Closing Reports Issued to Management within 30 days of Completion of all Judicial Actions	100%

<sup>1</sup> Includes all financial benefits, including audit-related questioned costs; recommendations for better use of funds; and investigative fines, restitution, settlements, and other monetary recoveries divided by OIG's total fiscal year budget obligations.

<sup>2</sup> Benefits to the FDIC that cannot be estimated in dollar terms which result in improved services; statutes, regulations, or policies; or business operations and occurring as a result of work that the OIG has completed over the past several years. Includes outcomes from implementation of OIG audit/evaluation recommendations.

<sup>3</sup> Fiscal year 2007 recommendations implemented by fiscal year-end 2009.

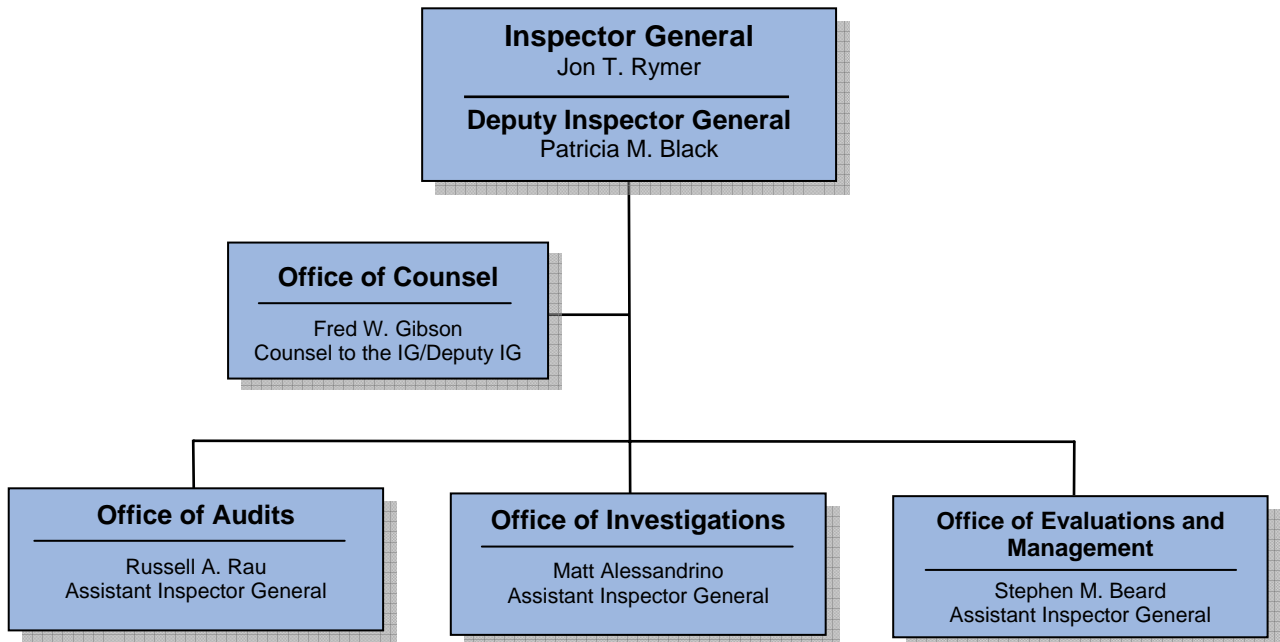
<sup>4</sup> Indictments, convictions, informations, arrests, pre-trial diversions, criminal non-monetary sentencing, monetary actions, employee actions, and other administrative actions.



## Appendix II: OIG Organization Structure

The FDIC OIG is comprised of five component offices as shown below. A brief description of the duties and responsibilities of each office is also shown.

**OIG Organization Chart**



### *Office of Audits*

The Office of Audits provides the FDIC with professional audit and related services covering the full range of its statutory and regulatory responsibility, including major programs and activities. These audits are designed to promote economy, efficiency, and effectiveness and to prevent fraud, waste, and abuse in corporate programs and operations. This office ensures the compliance of all OIG audit work with applicable audit standards, including those established by the Comptroller General of the United States. It may also conduct external peer reviews of other OIG offices, according to the cycle established by the Council of the Inspectors General on Integrity and Efficiency.

## ***Office of Evaluations and Management***

The Office of Evaluations evaluates, reviews, studies, or analyzes FDIC programs and activities to provide independent, objective information to facilitate FDIC management decision-making and improve operations. Evaluation projects are conducted in accordance with the *Quality Standards for Inspections*. Evaluation projects are generally limited in scope and may be requested by the FDIC Board of Directors, FDIC management, or the Congress.

The Office of Management is the management operations arm of the OIG with responsibility for providing business support for the OIG, including financial resources, human resources, and IT support; strategic planning and performance measurement; internal controls; coordination of OIG reviews of FDIC proposed policy and directives; and OIG policy development.

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## ***Office of Investigations***

The Office of Investigations (OI) carries out a comprehensive nationwide program for the prevention, detection, and investigation of criminal or otherwise prohibited activity that may harm or threaten to harm the operations or integrity of the FDIC and its programs. OI maintains close and continuous working relationships with the U.S. Department of Justice; the Federal Bureau of Investigation; other Offices of Inspector General; and federal, state and local law enforcement agencies. OI coordinates closely with the FDIC's Division of Supervision and Consumer Protection in investigating fraud at financial institutions, and collaborates with the Division of Resolutions and Receiverships and the Legal Division in investigations involving failed institutions and fraud by FDIC debtors.

In addition to its headquarters and regional presence, OI operates an Electronic Crimes Unit and forensic laboratory in Washington, D.C. The Electronic Crimes Unit is responsible for conducting computer-related investigations impacting the FDIC and providing computer forensic support to OI investigations nationwide. OI also manages the OIG Hotline for employees, contractors, and others to report instances of suspected fraud, waste, abuse, and mismanagement within the FDIC and its contractor operations via a toll-free number or e-mail.

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## ***Office of Counsel***

The Office of Counsel to the Inspector General is responsible for providing independent legal services to the Inspector General and the managers and staff of the OIG. Its primary function is to provide legal advice and counseling and interpret the authorities of, and laws related to, the OIG. The Counsel's Office also provides legal research and opinions; reviews audit, evaluation, and investigative reports for legal considerations; represents the OIG in personnel-related cases; coordinates the OIG's responses to requests and appeals made pursuant to the Freedom of Information Act and the Privacy Act; prepares Inspector General subpoenas for issuance; and reviews draft FDIC regulations and draft FDIC and OIG policies and proposed or existing legislation, and prepares comments when warranted; and coordinates with the FDIC Legal Division when necessary. The Counsel's Office also handles the OIG's congressional relations activities.

