Federal Deposit Insurance Corporation
Office of Inspector General

Semiannual Report to the Congress

Including the OIG's 2000 Performance Report

IG

October 1, 2000 – March 31, 2001

FDIC

Office of Inspector General

Strategic Plan Framework

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 the stability of and public confidence in the nation's financial system. We accomplish our mission by conducting independent audits, investigations, and evaluations and by keeping the Chairman and the Congress fully and currently informed of our work.

Vision

STATEMENT

By conducting independent audits, investigations, and evaluations, we act as agents of positive change, striving for continuous improvement in and protection of FDIC programs, operations, and management. We are committed to the Congress and the American public to promote good government and to create an environment where our employees have an opportunity to learn, excel, and be proud of their work.

STRATEGIC GOALS

OIG audits and evaluations will add value to the Corporation's programs and operations by detecting and guarding against fraud, waste, and abuse and by promoting economy, efficiency, and effectiveness.	OIG investigations will add value to the Corporation's programs and operations by identifying and investigating instances of fraud, waste, and abuse and other conduct leading to criminal, civil, and administrative penalties and recoveries.	OIG professional advice assists in the development and improvement of corporate systems, policies, and legislation.	The OIG will communicate effectively with the Chairman, the Congress, and other stakeholders.

STRATEGIC OBJECTIVES

Value Attributes • Client Satisfaction • Timeliness • Quality • Productivity • Impact	Value Attributes • Client Satisfaction • Timeliness • Quality • Productivity • Results	FDIC management is made aware of issues relating to emerging issues, new systems, and proposed and existing policies, regulations, legislation, and programs.	• Inform stakeholders of OIG's role and mission • Respond to stakeholder inquiries and requests • Work with PCIE, other OIGs, and other government agencies

Semiannual Report to the Congress

October 1, 2000 – March 31, 2001

Inspector General's Statement

It has been 5 years since I assumed the role of Inspector General at the Federal Deposit Insurance Corporation (FDIC) – a milestone that provides an opportunity to reflect on events of the past and look to the future as the Office of Inspector General (OIG) continues to chart its course.

What strikes me most are the changes we have experienced both as the OIG and as a part of the FDIC. With respect to the OIG, upon the Resolution Trust Corporation's (RTC) merger with the FDIC, our organization was faced with blending two very distinct corporate cultures, practices, and staffs. And though not without challenges along the way, we have all learned and grown tremendously, both personally and professionally, over the 5-year time frame. We have now completed most all of the RTC-related work that carried over; helped successfully usher in the Year 2000; focused our efforts to address the Corporation's current strategic goals and priorities; demonstrated that we can provide additional economies, efficiencies, and integrity to the Corporation's programs and operations; and benefited more and more each year from the new technological work tools at our disposal as we conduct our audits, evaluations, investigations, and internal operations.

Another major endeavor of our office over these years has been to foster strong working relationships with corporate management, all of our colleagues in the Corporation, and members of the Congress. I am pleased with our efforts in that regard and equally proud of our office's strong support of the Corporation's diversity initiatives and the genuine appreciation for the value of human capital that we have developed along the way.

But change is constant – it drives the federal government, the banking industry, and our workplace, and we cannot and will not relent in our efforts to keep pace with it. There is much more to accomplish. A new administration has taken office and seeks to carry out a different agenda. The passage of the Gramm-Leach-Bliley Act in November 1999 is revolutionizing the nature of banking services. FDIC Chairman Donna Tanoue has proposed a number of major deposit insurance reforms that have engendered great debate and could further alter the industry. Downsizing has and will continue to dramatically transform the workforce of the FDIC. Significant changes in leadership at all levels of the Corporation have occurred and more are in store. Chairman Tanoue has recently announced President Bush's nominee to replace her, and there may be other new appointments at the highest levels of the Office of Thrift Supervision and the Office of the Comptroller of the Currency that will further modify the composition of the Board of Directors at the FDIC.

FDIC OIG 5-Year Accomplishments

Over the past 5 years, the FDIC OIG has issued approximately 650 audit and evaluation reports or related products. These reports have questioned more than $134 million and identified more than $16.9 million as funds that could be put to better use. Audits and evaluations have led to nearly 700 nonmonetary recommendations for improved controls, enhanced policies and procedures, and operational efficiencies. Investigative fines, restitution, and monetary recoveries total more than $157 million for the same period. The OIG has also reported approximately 160 indictments and criminal charges and 125 convictions as a result of its work. The OIG's perspectives have been offered on a number of corporate programs by way of policy reviews, participation on corporate task groups, presentations at meetings and conferences, and frequent communication with corporate management and staff. We are proud of our past accomplishments and committed to such efforts going forward.

So although we have accomplished a great deal over the past 5 years, the OIG's work is far from over, and we now find ourselves – along with the Corporation – at a major crossroads as we look ahead during this time of flux. We need to stay current with the dynamic nature of the banking industry. We need to continue to improve as an organization and work together energetically to provide quality and timely products and services to our clients and stakeholders. We need to be creative and efficient in our work processes. We need to engage in productive and constructive dialogue with our counterparts at all levels of the FDIC to better understand and carry out our respective missions and goals. We need to continue to work with others in the Inspector General community and learn best practices from our peers. We need to be constantly attuned to the concerns and priorities of the Congress as we carry out our work. We will seize these challenges in the days ahead.

In closing, I wish to thank the OIG staff for their support and efforts over the past 5 years and also acknowledge a number of retirements over the past 6 months. Key members of the OIG's management team, Steve Switzer, Shirley Ward, and Dana Bedwell, have retired from the OIG after highly distinguished federal careers. Ed Sobota, Lorin Wiseman, and Hank Smith also retired after making significant contributions to the OIG during their years of service. We wish them all well. I also acknowledge the departure of former Vice Chairman Andrew C. Hove whose leadership of the Corporation during his 10 years at the FDIC helped ensure continuity during a number of challenging transition periods. He also served as Chairman of the Audit Committee for 2 years. The OIG welcomes John M. Reich as the newest member of the Board of Directors and Chairman of the Audit Committee and looks forward to working closely with him to help carry out the corporate mission.

Finally, I thank Chairman Tanoue for her leadership of the FDIC and support of the OIG during my tenure. It has been a great honor and privilege to have served as Inspector General for the past 5 years, and I look forward to continuing to address the challenges we face at the FDIC.

Gaston L. Gianni, Jr.
Inspector General
April 30, 2001

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OVERVIEW

Major Issues

The Major Issues section of our report focuses on key challenges confronting the FDIC as it works to accomplish its mission. In the OIG's view, these major issues fall into two broad categories. First, the Corporation faces challenges related to its core mission of contributing to the stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Such challenges sometimes involve significant policy decisions and are often influenced by external factors such as industry events, economic trends, activities of other federal banking regulators, consumer concerns, and congressional interest.

Second, a number of important operational matters require the Corporation's attention as its workforce actually carries out the corporate mission. These issues touch on, for example, information technology resources, contracting activities, human capital concerns, cost efficiencies, and performance measurement and accountability.

With respect to the first category, the Corporation must address risks to the insurance funds in a complex global banking environment that continues to experience change and offer expanded services. At the same time, the Corporation is charged with effectively supervising the financial institutions it regulates and carefully protecting consumers' rights. A Board of Directors operating at full strength is essential to lead the Corporation as it faces such challenges. As the Corporation moves forward, the deposit insurance reforms proposed by Chairman Tanoue will continue to be debated and deliberated by the banking industry and the Congress. One aspect of such reform involves the possible merger of the Bank Insurance Fund and the Savings Association Insurance Fund, an action that the OIG supports. As our report discusses, we also believe that when such a merger occurs, the timing would be opportune for the OIG to become the auditor of record for the Corporation. Our cooperative work with the U.S. General Accounting Office on the Corporation's financial statement audit is designed to see to that end.

Turning attention to the Corporation's more "operational" demands, the use of information technology (IT) at the FDIC is crosscutting and absolutely essential to the Corporation's accomplishment of its mission. In conducting its IT activities, the Corporation's priority must be the effective and efficient use of IT to achieve program results corporate-wide. It also needs to follow sound system development life cycle procedures, comply with IT principles espoused by legislation and regulation, and ensure that effective controls are in place to safeguard system security, mitigate risks, and protect IT resources. Given the extent of the FDIC's contracting activities, strong controls and vigilant contractor oversight are also critical to the Corporation's success. Contracting must be done in the most cost-effective manner and, in the case of contract agreements associated with securitized transactions, for example, additional care must be taken. In such cases, large sums of money are at stake and the FDIC does not control the entire management and disposition process. For all areas of contracting, the Corporation needs to know that it is getting the goods and services for which it is spending millions of dollars.

Major downsizing over the past 5 years and natural attrition have greatly impacted the FDIC workplace. As a result, the Corporation has lost leadership and, in some cases, expertise and historical knowledge. The Corporation's diversity and other efforts are helping to restore some of the lost talent and skill. The FDIC must build on ongoing initiatives and continue to develop a comprehensive, integrated approach to human capital issues. It has worked with a contractor to help develop a process for a human capital strategy; however, more needs to be done. In light of changes in the banking industry, advances in technology, and such dramatic shifts in staffing and skill levels, the Corporation has begun to closely scrutinize its business processes and their associated costs in the interest of identifying operational efficiencies. Its Division of Supervision Process Redesign project and review of administrative services functions are generating new ideas for such efficiencies and are positive steps.

Finally, under the provisions of the Government Performance and Results Act with its emphasis on accountability, for all of these major issues and their corresponding challenges the Corporation must establish goals, measure performance, and report on its accomplishments.

Our Major Issues section also discusses the OIG's completed and ongoing/planned work to help the Corporation successfully confront 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 approximately $8 million. We made 90 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 11 - 26).

Investigations

The operations and activities of the OIG's Office of Investigations are described beginning on page 27 of this report. As detailed in the Investigations section, the Office of Investigations is reporting fines, restitution, and recoveries totaling approximately $67 million. Cases leading to those results include investigations of bank embezzlement, mail fraud, bribery, bank fraud, misrepresentations regarding FDIC insurance, computer theft, securities fraud, and identity theft. Some of the investigations described reflect work we have undertaken in partnership with other law enforcement agencies and with the cooperation and assistance of a number of FDIC divisions and offices. 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 27 - 33).

OIG Organization

The OIG Organization section of our report highlights several key internal initiatives that we have actively pursued during the reporting period. The OIG's internal focus has been on valuing our human capital and strengthening working relationships. This section of our report also references some of the cooperative efforts we have engaged in with management during the reporting period, including our involvement with the Division of Supervision Process Redesign project and the Corporation's administrative services review, our agreement with the Division of Resolutions and Receiverships and the Financial Crimes Unit regarding coordination of OIG investigations, and making presentations at corporate conferences and meetings. We present a listing of proposed or existing laws and regulations reviewed during the past 6 months, refer to litigation efforts of OIG Counsel, and also capture some of our other internal initiatives this reporting period. In keeping with our goal of measuring and monitoring our progress, we visually depict significant results over the past five reporting periods (see pages 34 - 41).

OIG's 2000 Performance Report

We are including the OIG's 2000 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 36 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. 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 43 - 60).

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 63 - 71).

reports initiatives evaluations analysis reviews

HIGHLIGHTS

results

- The Office of Audits and Office of Congressional Relations and Evaluations issue a total of 24 reports and 21 other audit- or evaluation-related products. The reports identify questioned costs of $5.7 million (of which $1.8 is unsupported) and funds put to better use of $2.3 million. Management disallows all costs questioned.

- OIG reports include 90 nonmonetary recommendations to improve corporate operations. Among these are recommendations to further strengthen the Corporation's risk-focused examination process, improve controls over the FDIC's laptop computer inventory, enhance the effectiveness of the Corporation's information technology (IT) risk management program, and better verify and validate performance data.

- OIG investigations result in 11 indictments/informations; 14 convictions; and approximately $67 million in total fines, restitution, monetary recoveries, and asset forfeitures – the largest investigative monetary benefits for a 6-month period in the history of the FDIC OIG.

- The OIG reviews 5 proposed or existing federal regulations and legislation and 30 proposed FDIC policies and responds to 13 requests and appeals under the Freedom of Information Act and Privacy Act.

- The OIG continues efforts with the Division of Resolutions and Receiverships (DRR) to pursue court-ordered restitution. As of March 31, 2001, the OIG is conducting 45 investigations that are being coordinated with DRR and involve a total of over $288 million in outstanding restitution orders or other types of debt.

- 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 employs a "continuous auditing" approach for the project.

- The OIG coordinates with and assists management on a number of initiatives, including its contractor oversight summit, providing training during Commissioned Examiner seminars based on the OIG's experience investigating the failure of the First National Bank of Keystone, and consulting on a multitude of IT-related matters.

- The OIG accomplishes a number of internal office initiatives, including furthering efforts to automate OIG workpapers, participating in interagency Government Performance and Results Act interest groups, formulating an action plan in response to the FDIC's Organizational Assessment Survey, and engaging in a number of diversity activities.

- The OIG provides briefing information to John Reich, the new FDIC Director and head of the Audit Committee, to familiarize him with the role and mission of the OIG at the FDIC.

- The OIG participates actively in the Division of Supervision (DOS) Process Redesign project to improve current operating efficiency and proactively prepare for challenges ahead.

- The OIG responds to two new Congressional reporting requirements – one relating to the timeliness of the Corporation's payment of District of Columbia water and sewer bills and the other related to the FDIC's collection of information about individuals who access its Web site.

- The OIG continues work to review the FDIC's special examination authority and DOS's effectiveness in monitoring risks posed by the nation's largest banks.

- The OIG issues the results of two audits addressing aspects of DOS's risk-focused safety and soundness examination process: (1) DOS's use of expanded and impact analysis examination procedures for high-risk areas and (2) DOS's examination of regulated institutions' compliance with the Bank Secrecy Act.

- The OIG's IT-related work contributes to significant improvements in IT security management and controls, including the Corporation's computer virus protection program, IT risk management program, process for managing IT maintenance expenses, and controls over laptop computers.

- OIG reviews of contracts and agreements lead to $5.7 million in questioned costs (of which $1.8 million is unsupported) and recommendations for improved contractor oversight.

- The OIG evaluates the degree to which FDIC program offices verify and validate performance data presented in Government Performance and Results Act reports.

- The OIG joins with the Office of Internal Control Management in studying administrative services functions throughout the Corporation to assist FDIC management in efforts to improve operational efficiencies and reduce costs.

- The OIG's Office of Investigations, DRR, and the Financial Crimes Unit finalize an agreement regarding coordination on OIG investigations involving failed institutions, debtors, and/or asset dispositions.

- A joint investigation by the OIG and the Federal Bureau of Investigation (FBI) results in prison sentences for two former executives of a famed Kentucky horse farm. The two are ordered to pay a total of $41 million in restitution after being found guilty of offering a $1.1 million bribe to a bank director.

- Two former officers of the first National Bank of Keystone, Keystone, West Virginia, are indicted on charges of bank embezzlement, conspiracy to commit bank embezzlement, and mail fraud. The Keystone investigation is being conducted by a multi-agency task force comprised of special agents of the FDIC OIG, FBI, and Internal Revenue Service and prosecutors from the U.S. Attorney's Office for the Southern District of West Virginia and the Department of Justice. The FDIC's DRR is also assisting the task force.

- The OIG issues its *2000 Performance Report* (included in this semiannual report) presenting our performance against 36 goals outlined in our annual performance plan.

- The OIG completes its third client survey to obtain views and feedback from senior and operating FDIC management in the interest of seeking to constantly improve OIG operations and products.

accountability added value savings recommendations

MAJOR ISSUES

Organizational Leadership

By law, the Board of Directors of the FDIC consists of five individuals. Three of these positions are nominated for FDIC service directly by the President (the Chairman, Vice Chairman, and an appointed Director), and two are filled by other Presidential appointees (the Comptroller of the Currency and the Director of the Office of Thrift Supervision). The five-member Board was established in 1989 with the passage of the Financial Institutions Reform, Recovery and Enforcement Act. Before that time, the Board consisted of a Chairman, an appointed Director, and the Comptroller of the Currency.

During the 1990s, one or more Presidentially-appointed positions on the Board of Directors frequently were vacant. The FDIC is both the independent regulator of a significant portion of the nation's banking system as well as the only federal insurer of deposits wherever placed in our nation's banks. As a Corporation governed by its Board of Directors, the vital balance between various interests implicit in the Board's structure is preserved only when all vacancies are filled. Certain critical powers (for example, the authority to conduct a special examination of an institution regulated by the Office of the Comptroller of the Currency, the Office of Thrift Supervision, or the Federal Reserve Board should the FDIC independently conclude that an institution poses a significant risk to the insurance fund) can only be invoked at the Board level. Accordingly, we have strongly urged that vacancies on the FDIC's Board be filled as promptly as practicable in order to afford the FDIC the balanced governance and sustained leadership essential to the agency's continued success.

During the reporting period, John M. Reich was confirmed by the Senate as a member of the FDIC's Board of Directors to fill a Board position. Mr. Reich will also serve as Chairman of the FDIC's Audit Committee. Still one Board position, left vacant by departing Vice Chairman Andrew C. Hove, remains unfilled. With the likelihood of a new Chairman replacing Chairman Tanoue and possible new presidential appointees that would head the Office of Thrift Supervision and the Office of the Comptroller of the Currency, we again reiterate our hope that the vacant Board position will soon be filled so that the Board can operate at full strength as it guides the future course of the FDIC.

Supervising Insured Institutions

As the primary federal regulator of state-chartered institutions that are not members of the Federal Reserve System, the FDIC shares joint responsibility with the state banking departments for monitoring and supervising the safety and soundness of over 5,000 financial

Management Challenges at the FDIC

In the interest of improving federal performance government-wide, Senator Fred Thompson, as Chairman of the Senate Governmental Affairs Committee, has asked Offices of Inspector General to identify the 10 most significant management challenges facing their agencies. At the FDIC, our office has identified these challenges as follows:

- Organizational Leadership
- Supervising Insured Institutions
- Protecting Consumer Interests
- Addressing Risks to the Insurance Funds
- Merging the Insurance Funds
- Managing Information Technology
- Ensuring Sound Controls and Oversight of Contracts and Agreements
- Establishing Goals and Measuring Results
- Addressing Human Capital Issues
- Containing Costs and Assessing Business Processes

The Government Performance and Results Act provides a mechanism to establish goals and measures to address these significant management challenges. Through continuous Results Act reporting, the FDIC should address congressional expectations that the FDIC's performance and reports clearly inform the Congress and the public of the results and outcomes of the Corporation's major programs and activities.

The OIG will continue to work closely with corporate management to address all of these challenges and will monitor progress made by the Corporation to fully conform with the intent of the Results Act.

institutions. 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, the Division of Supervision (DOS) projected starting over 2,600 safety and soundness examinations in 2001.

Emerging trends and new developments in the banking industry will require DOS to increase its efforts to identify and assess risks from:

- declining underwriting standards for commercial real estate lending;
- rapid changes in bank operations between safety and soundness examinations;
- expanded banking activities permitted by the Gramm-Leach-Bliley Act;
- the growth of information technology and its increasing impact on payment systems and other traditional banking functions; and
- fraudulent activities, which have contributed significantly to bank failures in recent years.

Additionally, there are continuing pressures for the FDIC to increase the efficiency of the bank examination process. DOS has responded by risk-focusing the examination process to increase examination effectiveness. However, as red flags surface during off-site monitoring and on-site examinations, there may be a need for the use of more in-depth examination procedures to avoid possible over-reliance on bank management controls, information systems reports and the services of third-party contractors, and to confirm the accuracy of institution data.

Also, with the possibility of an economic downturn, DOS should focus on identifying the size of the examination staff needed to ensure sufficient capacity for addressing increased risks.

Considering the lead time required for developing new commissioned examiners, the FDIC needs to ensure the examination force will be adequate for handling potential problems and bank failures. The FDIC should be careful to avoid repeating mistakes of the past, such as during the savings and loan crisis of the 1980s when the examination workforce was reduced at a time of expanded institution powers and increased competitive pressures.

There may also be a more fundamental need to reassess the agency's approach to bank examinations and supervision by redesigning the process to better address information systems capabilities and limitations in targeting areas of increasing risk as quickly as possible. Specifically, the FDIC should consider developing online bank monitoring systems to supplement quarterly call report data, expanding the use of permanent on-site teams in larger institutions, and developing quick response examination teams to conduct focused examination work in specialty areas that need immediate attention.

OIG Participates in Division of Supervision's Process Redesign Project

The OIG has been working to assist the Corporation in carrying out a number of these challenges through active involvement with the DOS Process Redesign initiative.

In the first quarter of this year, we joined with other FDIC divisions and offices in supporting DOS in its process redesign initiative. DOS is responsible for assessing the safety and soundness of institutions supervised by the FDIC as well as monitoring the insurance risks posed by institutions supervised by the Federal Reserve, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

DOS management initiated the process redesign effort to improve current operating efficiency and to proactively prepare for challenges in a different, future operating environment. With significant restructuring in the financial services industry, DOS recognized the need to develop a comprehensive response to the significant challenges posed by consolidation in the banking industry, alliances between financial services providers, and technological change.

DOS management invited the OIG to participate in this important endeavor. Senior staff and specialists from our Office of Audits and Office of Congressional Relations and Evaluations were involved in each of the five process redesign groups established by DOS. These five groups were responsible for evaluating DOS's examination and application processes, headquarters and field infrastructure, training and administration, technology, and policies.

As an initial step, we provided DOS with lists and copies of OIG reports containing recommendations related to each of the process redesign areas. We also participated in the group meetings and teleconferences, providing information related to the group discussions and offering our comments and perspectives for DOS consideration. In addition, we ensured that the DOS project plans were coordinated with evaluations we were conducting of the FDIC's field office costs and utilization and administrative services. As the process redesign groups prepared their reports, we offered our comments on the draft products provided to us for review.

As a result of the process redesign effort, DOS identified specific initiatives that will provide immediate results and has recommended further actions to improve FDIC operations and achieve significant cost savings. A few of the benefits expected from this project include:

- restructuring the report of examination and documentation requirements to improve the effectiveness and efficiency of examinations,

- realigning the organizational structure and delegations of authority to improve operations,
- providing computer-based instruction in place of some classroom training to reduce training costs,
- developing specialist programs for large bank supervision and technology to address areas of increased risk, and
- streamlining the policy development process to reduce response time for answering policy-related questions.

The OIG welcomes the opportunity to participate in this important project. While the OIG must remain independent and cannot take an active role in management decisions, we have been able to assist by providing relevant information, reviewing and commenting on group ideas and products, and offering an independent perspective on the direction of each of the groups. DOS management has been receptive to our input and has requested our continued involvement through the implementation phase for some of the proposed initiatives.

OIG Reviews Timeliness of Processing Deposit Insurance Applications

Also during the reporting period we issued the results of our review of the FDIC's timeliness of processing applications for deposit insurance. DOS had asked the OIG to determine whether DOS processed applications consistently regardless of the applicant's primary federal regulator. Our review found no evidence that DOS treated applications from any of the primary regulators differently. However, we did note that case managers did not always follow DOS guidelines regarding accepting applications for deposit insurance. Also, DOS could improve its application processing timeliness by ensuring that applications are substantially complete before accepting them for processing. The FDIC could also enhance its monitoring of the application process by evaluating timeliness over a given reporting period. Finally, information recorded in the Corporation's application tracking system was not always accurate. We made three recommendations to address these concerns, and management concurred with them.

Protecting Consumer Interests

The FDIC is legislatively mandated to enforce various statutes and regulations regarding, for example, consumer protection and civil rights with respect to state-chartered, non-member banks and to encourage community investment initiatives by these institutions. Some of the more prominent laws and regulations in this area include the Truth in Lending Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, Fair Housing Act, Home Mortgage Disclosure Act, Equal Credit Opportunity Act, and Community Reinvestment Act (CRA) of 1977. The FDIC's primary means of accomplishing these tasks is through compliance examinations and CRA performance evaluations. During 2001, the Division of Compliance and Consumer Affairs (DCA) estimates that it will perform more than 600 comprehensive (compliance and CRA) examinations and over 1,500 compliance examinations.

Due to the public interest aspect of consumer protections and potential consumer exposures, the FDIC must detect and promptly correct problems in institutions, promote compliance with consumer protection laws and regulations, and increase public understanding of and confidence in the deposit insurance system. The FDIC must also respond to consumer complaints and inquiries. Some of these complaints and inquiries relate directly to financial literacy and predatory lending–issues of primary concern for DCA. These practices often seem to have a disproportionately negative effect on under-served low- and moderate-income borrowers, minority groups, and the elderly, who may be made vulnerable by the lack of credit availability, financial expertise, financial counseling, or poor credit history.

Another important aspect of protecting consumer rights is consumer privacy. With the enactment of the Gramm-Leach-Bliley Act, the FDIC, along with other financial institution regulators, must work with the institutions to develop programs to ensure the privacy of consumer information. In addition, based on our specific work in DCA, we believe Division management must continue to improve controls over the CRA evaluation process to ensure that CRA examination procedures are applied on a consistent basis.

FDIC management completed a comprehensive internal review of CRA reports from FDIC regions in December 2000. The Division is instituting new controls and procedures to address the concerns raised by both the OIG's work and the Division's own review.

Ongoing Work Focuses on Fair Lending Examination Risk Scoping Process

We are currently conducting an audit of the fair lending examination risk scoping process conducted by DCA. We are assessing the effectiveness of the process used by the FDIC to scope and identify fair lending risks during the planning phase of DCA compliance examinations and also evaluating the effectiveness of management controls and oversight.

"Fair lending" is a term used to describe compliance with federal laws and regulations prohibiting discrimination in a bank's credit operations. Two federal statutes specifically prohibit discrimination in lending. The Fair Housing Act, enacted by Title VIII of the Civil Rights Act of 1968, prohibits discrimination in housing, including the financing and insuring of transactions. The Equal Credit Opportunity Act of 1974 prohibits discrimination in all lending, including housing loans. Federal banking regulators are responsible for performing regularly scheduled examinations of insured depository institutions and their subsidiaries to assess compliance with fair lending laws.

The FFIEC has approved Interagency Fair Lending Examination Procedures intended to provide consistency in the fair lending examination process among federal banking regulators through a basic, flexible framework. While each regulatory agency has the flexibility to amend its examination procedures for reviewing fair lending compliance, each agency has adopted the interagency procedures effective January 1999. The procedures provide guidance on taking a comprehensive, efficient, risk-based approach to examining banks for compliance with the nondiscriminatory requirements of the Fair Housing Act and the Equal Credit Opportunity Act. Our audit will determine whether DCA consistently and effectively applies the procedures during the exam planning phase. We will issue our results in the upcoming semiannual reporting period.

Addressing Risks to the Insurance Funds

A primary goal of the FDIC under its insurance program is to ensure that its deposit insurance funds remain viable. Achievement of this goal is a considerable challenge given that the FDIC supervises only a portion of the insured depository institutions. The identification of risks in non-FDIC-supervised institutions requires coordination with the other federal banking agencies. The FDIC engages in an ongoing process of proactively identifying risks to the deposit insurance funds and adjusting the risk-based deposit insurance premiums charged to the institutions. The Division of Finance completes the final phase in this process by collecting the premium assessments.

Although the FDIC has a continuous program to ensure the viability of the deposit insurance funds, recent trends and events are posing additional risks to the funds. The environment in which financial institutions operate is evolving rapidly, particularly with the acceleration of interstate banking, new banking products, electronic banking, and consolidations and/or integrations that may occur among the banking, insurance, and securities industries resulting from the enactment of the Gramm-Leach-Bliley Act. More specifically, in recent years, some institutions have grown rapidly through an influx of deposits and new institutions have been created, all without payment of deposit insurance premiums. The FDIC needs to ensure that the deposit insurance funds provide adequate protection against the risk of institution failures and that deposit insurance premiums are assessed on a risk-based basis.

Emerging technological advancements and the Internet are revolutionizing the financial services industry on a global basis. In a few years, the Internet may become the instrument of choice for managing financial services. In order to maintain the integrity of the banking systems, the FDIC must continue to take a proactive approach to these emerging technologies by instituting new examination policies and procedures to address the risks arising from these advances.

The FDIC also needs to maintain a vigilant watch over other sectors of the economy, such as real estate, commercial lending, and agriculture, that could erupt into problem areas. Through various reporting vehicles such as research and reporting on underwriting standards, the FDIC further seeks to guard the safety and soundness of the nation's financial institutions.

The enactment of the Gramm-Leach-Bliley Act in November 1999 created the most sweeping changes in banking 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 recent spate of bank mergers has created "megabanks" (more recently referred to as "large banks"), and, for many of these institutions, the FDIC is not the primary federal regulator. As of December 31, 2000, the 46 largest banking organizations in the United States controlled assets totaling approximately $4.1 trillion, accounting for nearly 55 percent of assets held by all FDIC-insured institutions. Of the 46, the FDIC was the primary federal regulator for only 4. The large banks created as a result of mergers and the new or expanded services that the institutions can engage in under the Gramm-Leach-Bliley Act will no doubt present challenges to the FDIC and may pose new risks to the deposit insurance funds.

To monitor the insurance risks associated with the more than 4,000 institutions supervised by other federal banking agencies, the FDIC relies primarily on the examination and supervision provided by the other agencies. However, the FDI Act also provides the FDIC with the authority to conduct its own special examinations for insurance purposes and to take supervisory enforcement actions as needed to address safety and soundness concerns that increase risks to the funds. In this regard, based on audit work during past reporting periods that assessed the FDIC's supervision for insurance purposes, we identified several areas in which DOS needed additional emphasis and support in its interagency coordination efforts. Specifically, the FDIC needed to take action to ensure:

- the adequacy of interagency coordination arrangements, with respect to both information-sharing and attendance at key meetings with bank management;
- full access to the bank information systems developed and relied upon by the other federal banking agencies;
- the use of special back-up examination powers without restraints imposed by the other federal banking agencies; and

- increased coordination with both federal and state regulators of securities and insurance operations.

Without progress in these areas, the FDIC will be hampered in its effort to monitor insurance risks, especially in connection with the largest institutions where the failure of just one could bankrupt the related deposit insurance fund. To ensure the FDIC's effectiveness as a counterbalancing control, legislative action may be necessary to provide special examination authority directly to the FDIC Chairman.

OIG Continues Work on the FDIC's Special Examination Authority

On October 19, 1999, we issued an audit memorandum to the FDIC Chairman communicating concerns resulting from our review of DOS's efforts to monitor risks at institutions for which the FDIC is not the primary federal regulator. In early 2000, we submitted a statement for the record to the former 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 risks in those financial institutions supervised by the other federal banking agencies. Following a hearing on February 8, 2000, that focused on bank failures and regulatory initiatives, the Committee withdrew the proposed legislation.

Although the FDIC has a continual program to ensure the viability of the deposit insurance funds and has initiated steps to enhance its large bank supervision program, some of the underlying problems related to DOS's dependence on the other federal regulators have not been fully resolved.

Accordingly, to reevaluate the conditions that prompted our 1999 memorandum to the Chairman and the ongoing concerns, we are conducting a follow-up review of the use of special examination authority and DOS's effectiveness in monitoring the risks posed by the nation's largest banks, the results of which will be communicated in our next semiannual report.

Several Important Aspects of the Risk-Focused Exam Process Can Be Improved

The OIG reviewed several key aspects of DOS's risk-focused examination process during the current reporting period. First, we audited DOS's use of expanded and impact examination procedures in the risk-focused examination process. DOS developed the examination documentation (ED) modules to provide examiners with a tool to focus on risk management and to establish guidelines for an appropriate examination scope, approach, and examination program, including workpaper documentation. The ED modules incorporate questions and points of consideration into examination procedures to specifically address a bank's risk management strategies for each of its major business activities. Within the ED modules examination procedures are separated into three distinct tiers of review: core, expanded, and impact analysis. The extent to which an examiner works through each of the three tiers of the ED modules depends upon the conclusions reached regarding the presence of significant concerns or deficiencies.

Our audit determined that, for the most part, examiners completed core analysis procedures and answered core analysis decision factors. However, more needed to be done in the documenting of expanded analysis and impact analysis. We recommended additional steps that DOS could take during pre-examination planning, examination performance, and post-examination analysis to help ensure full implementation and complete management support of the risk-focused examination process. Specifically, we recommended that DOS require and ensure that examiners use expanded and impact analysis sections of the ED modules to document work performed in high-risk areas and that DOS clarify the language in existing guidance regarding the use and documentation of expanded and impact analysis procedures.

We also recommended that DOS examiners include more information in the pre-examination planning memoranda, including the applicability of expanded analysis for potential high-risk areas. DOS management also needs to emphasize the role of regional and field office supervisory personnel in ensuring complete implementation of the risk-focused examination process and develop a national requirement for post-examination analysis. Taken together, we believe these recommendations will strengthen the entire risk-focused examination process and provide benefits for future examinations. Our report also reflected a number of best practices from four regional offices.

DOS management agreed with the intent of the recommendations we made and committed to take action; however, management expressed concern over the potential increase in examiner time that might be devoted to preparing additional, and possibly duplicative, workpaper documentation. DOS also noted that its ongoing Process Redesign initiative might affect the policies and requirements for using the ED modules and proposed alternatives to some parts of our recommendations. The OIG will follow up to determine whether all recommendations have been adequately addressed in light of DOS's Process Redesign effort.

Our second audit that was related to the risk-focused examination process involved the Bank Secrecy Act (BSA). We conducted the audit to determine the extent to which DOS examiners reviewed regulated institutions' compliance with the BSA during the course of safety and soundness examinations of financial institutions.

By way of background, in 1970 the Congress passed the BSA to aid law enforcement agencies in the investigation of suspected criminal activity ranging from income tax evasion to money laundering by organized crime. More recently, law enforcement agencies have found BSA reports and records maintained by financial institutions extremely valuable in investigating drug trafficking.

The BSA regulations require all financial institutions to maintain certain records and prepare reports on cash transactions by and through financial institutions in excess of $10,000 into, out of, and within the United States. Specifically, a financial institution must file a Currency Transaction Report (CTR) with the Internal Revenue Service for each cash transaction over $10,000 or multiple cash transactions by an individual in 1 business day aggregating over $10,000. In addition, BSA requires financial institutions to file a Suspicious Activity Report (SAR) with the Department of the Treasury's FinCEN when suspected money laundering activity or BSA violations occur. Finally, Treasury's Office of Foreign Assets Control (OFAC) promulgated regulations that require banks to identify transactions with prohibited entities and notify OFAC when such transactions are attempted or completed. OFAC rules may require an institution to reject or freeze the funds involved in these transactions. Violations of BSA and OFAC record keeping and reporting requirements expose financial institutions to substantial penalties.

The FDIC has developed comprehensive examination procedures to determine whether financial institutions properly implemented BSA provisions and to independently identify instances of potential money laundering. However, our review found that DOS examiners did not adequately document their BSA work. As a result, we could not always determine the extent to which DOS examiners reviewed regulated institutions' compliance with the BSA during safety and soundness examinations. We also found that examiners could have improved their BSA exam planning by taking full advantage of the various BSA information systems available and by clarifying the OFAC planning procedure. Specifically, examiners did not consistently use the independent FinCEN examination support databases that contain information of CTRs and SARs during the examination planning process. Examiners also generally did not review the OFAC listing to identify a financial institution's potential violations of OFAC regulations. We made two recommendations relating to these issues. The Corporation agreed with the intent of our recommendations and will take actions to address our concerns. The OIG is currently conducting additional work related to the use of SARs, CTRs, and OFAC data in examinations.

Merging the BIF and SAIF

The FDIC and a number of other policymakers have proposed that the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) be merged. In February 2000, Chairman Tanoue testified before the House Subcommittee on Financial Institutions and Consumer Credit on behalf of the FDIC regarding the merger of the funds. At that time, legislation (H.R. 3899) that would address the merger issue was introduced by House members Roukema and LaFalce. However, that legislation was opposed by the American Bankers Association (ABA). The ABA took the position that a merger of the funds should not be enacted without also addressing other deposit insurance reforms. These reforms included adjusting the insurance limits beyond $100,000, indexing the insurance limit to account for the future effects of inflation, capping the insurance fund, and providing rebates of excess funds to the banking industry.

Although the proposed legislation was not enacted, the Chairman has continued to recommend the merging of the funds and has encouraged debate in an effort to develop an industry consensus regarding the best approach to deposit insurance reform. Because of the health of the funds and the health of the banking industry, the FDIC believes that the timing for a merger of the funds is optimal. The FDIC believes that a merger would strengthen deposit insurance by diversifying risks and providing overall efficiencies. The ABA has indicated agreement with the FDIC but believes that a merger of the funds must be accompanied by other deposit insurance reforms.

During 2001 there is a strong likelihood that the new Congress will introduce legislation that will address the merging of the funds and other deposit insurance reforms. It is also anticipated that FDIC will continue to lead the debate on broader deposit insurance reform.

The OIG is a proponent of the eventual merging of the BIF and SAIF. The OIG also believes that when such a merger occurs, the timing is opportune for the OIG to become the auditor of record for the FDIC. A formal, legislative shift of responsibility for the audit of the Corporation's financial statements from the U.S. General Accounting Office (GAO) to the OIG would be in line with the Chief Financial Officers Act and other agencies' practices. Over the past 5 years, OIG staff members have worked closely with GAO on the financial statement audit effort, constantly learning and assuming increasing responsibility for the work. (See later write-up on GAO/OIG Financial Statement Audit Partnership.) Statutory language currently contained in Section 17 of the FDI Act will need to be changed to give the OIG complete audit responsibility.

Managing Information Technology

Accomplishing information technology (IT) goals efficiently and effectively requires significant expenditures of funds and wise decision-making and oversight on the part of FDIC managers. The Corporation's 2001 IT budget is approximately $185 million.

IT is increasingly impacting every facet of our lives and is evolving at an ever-increasing pace. The Corporation must constantly evaluate technological advances to ensure that its operations continue to be efficient and cost-effective and that it is properly positioned to carry out its mission of insuring and supervising the nation's financial institutions. The capabilities provided by IT advances (like paperless systems, electronic commerce, electronic banking, and the instantaneous and constant information-sharing through Internet, Intranet, and Extranet sources) also pose significant risks to the Corporation and the institutions that it supervises and insures. Many of these risks are new and unique. Therefore, solutions to address them are sometimes difficult and, in many cases, without precedent.

In addition to technological advances, the Corporation must continue to respond to the impact of new laws, regulations, and legal precedents on its activities. Management of IT resources and IT security have been the focus of several significant legislative acts, such as the Government Performance and Results Act, the Clinger-Cohen Act, and the Paperwork Reduction Act. In addition, pursuant to the National Defense Authorization Act, which contains legislation related to IT security, the OIG will conduct annual evaluations of the FDIC's information security programs and practices. Also, the Office of Management and Budget (OMB) has incorporated changes to its guidance on managing IT activities (OMB Circular A-130).

According to the Corporation's Strategic Plan, simply applying technology solutions will not solve existing business problems. The FDIC's program areas must first identify where current processes can be improved, and then where technology can be applied to facilitate those processes and ultimately accomplish the corporate mission. 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 when and how technology can be used to support these efforts and better support the Corporation and its customers. While these corporate goals are meritorious, the challenge will be their effective and efficient implementation.

The OIG's work in the IT area is highly varied and includes auditing specific applications; providing technical assistance and advice; reviewing IT risk management, security programs, and controls over computer equipment; and examining IT management, planning, and budgeting issues. But all of this work has a common, significant feature – high impact. A summary of our extensive work in the IT area during the reporting period follows.

Corporation's Virus Protection Program Is Generally Effective

We conducted an audit to review the FDIC's computer virus protection program and assess the Corporation's ability to identify, contain, and clean computer viruses. The Division of Information Resources Management's (DIRM) Information Security Staff had reported 45,000 FDIC computer virus incidents during the first three quarters of 1999. A computer virus is a specially designed computer program that has the ability to replicate itself and modify other programs. This program may contain malicious instructions that disrupt a computer's proper operation or destroy programs and other data stored in a computer.

We concluded that the FDIC's computer virus protection program was generally effective in minimizing the exposure from computer virus contamination. However, we identified possible improvements to further reduce the probability of computer virus contamination. For example, we identified several mission-critical and operationally significant computers that were not afforded protection by computer virus protection software and other instances where the virus protection software was not fully utilized. We also noted that software maintenance could be strengthened and that the virus protection program policies, standards, and procedures needed to be updated and expanded to reflect current risks and operations. We communicated this information to DIRM's Information Security Staff Director, and he initiated corrective action during audit fieldwork to address some of these issues. The Corporation agreed with the 12 recommendations we made in our audit report.

It is important to note that the effectiveness of the FDIC's computer virus protection program was demonstrated during the global attack of the "I Love You" virus. DIRM was able to develop and institute firewall filters attuned to viral characteristics it had identified, and, because of the early warning, the FDIC fared better than many other federal agencies.

Audit of the FDIC's IT Risk Management Program Identifies $2.2 Million in Funds Put to Better Use

We conducted an audit of the Corporation's IT risk management program. This program is designed to identify applications that process sensitive corporate data and perform independent security reviews (ISR) to determine an application's ability to safeguard the confidentiality and reliability of data. During the audit of the FDIC's 1999 financial statements, the GAO issued a management letter reporting that the FDIC had not fully or adequately completed these ISRs and security plans.

The objective of our audit was to determine the effectiveness of the program in addressing the security-related requirements contained in OMB Circular A-130, Appendix III. We focused audit resources to quickly research and identify actions needed to resolve issues through a collaborative effort with DIRM. Our report concluded that although the FDIC's program compared favorably to other agencies' programs and complied with OMB A-130 requirements, the program was not yet fully effective in controlling risks to the Corporation's IT infrastructure.

We reported that recommended program enhancements, particularly those that related to the issues raised by GAO, could be implemented with adjustments to the management of the program. By refining its process for determining high-risk applications, DIRM could reduce the number of major applications requiring an ISR, thus reducing program costs by approximately $2.2 million over a 3-year risk management cycle (funds put to better use). We determined that DIRM could also significantly enhance program effectiveness by (1) scheduling and completing ISRs for the general support systems early in the risk management cycle, (2) expanding the scope and depth of the application ISRs, and (3) developing a tracking process capable of efficiently resolving corrective actions. Additionally, DIRM could minimize security risks corporate-wide by ensuring that DIRM security personnel review and approve the security design of all major applications before they are placed into production. We made nine recommendations to improve the administration of the program, and the Corporation agreed to take action to address our concerns.

The FDIC Can Improve Application Maintenance Budgeting

During the reporting period we completed a review of the FDIC's maintenance budgets for application systems. The FDIC had designated approximately $33.8 million, or 17 percent, of its $202 million IT budget for 2000 as application maintenance. Application maintenance represents the day-to-day support activities provided by DIRM to operate the Corporation's approximately 470 business applications. Our audit evaluated the manner in which DIRM manages the FDIC's application maintenance expenditures, including the division's processes for planning, categorizing, and administering maintenance expenses.

DIRM has taken actions to improve the manner in which it manages IT expenditures classified as application maintenance. However, opportunities for further improvement exist. Specifically, DIRM needs to better categorize and define application maintenance expenditures to enhance the accuracy of cost data and strengthen IT budgeting and reporting. Additionally, senior DIRM management can enhance its administration of IT maintenance by implementing a process to monitor and evaluate key components of application maintenance expenditures.

We made four recommendations that were based on generally accepted industry standards, FDIC-specific needs, and sound IT management principles espoused in key legislation such as the Clinger-Cohen Act of 1996 and the Government Performance and Results Act. We made these recommendations not only to encourage greater accountability but also to improve DIRM's ability to plan, estimate, and justify application maintenance resources. The Corporation agreed to pursue action on all recommendations.

Controls over the FDIC's Laptop Computer Inventory Need Strengthening

Establishing and maintaining effective accountability controls over computer-related equipment has been a continuing problem at the FDIC. During the reporting period we completed an audit to determine whether the FDIC was effectively controlling its growing inventory of laptop computers. For 2000, DIRM budgeted about $16.6 million for PC/LAN equipment. As of December 1, 2000, $8.1 million (about 49 percent) had been spent for laptops and another $2.2 million (about 13 percent) in laptop purchases were planned. The FDIC maintains a major investment in laptops, and, because of the portability and vulnerability of laptops, some of which contain sensitive data, the FDIC needs strong inventory management controls.

To assist DIRM in its responsibilities, in April 1997 DIRM entered into a $2.5 million contract with Innovative Logistics Techniques, Inc., (INNOLOG) to staff and operate DIRM's distribution centers and maintain an inventory management system to assist DIRM in tracking the FDIC's inventory of computer equipment. In July 1999, DIRM entered into another contract worth $4.1 million with INNOLOG. Under this contract, INNOLOG is responsible for the entire life cycle management of IT assets and the continued staffing of the two distribution centers in the Washington, D.C., area. Further, the contractor is to conduct physical inventories of IT assets at the distribution centers, FDIC headquarters, regions, and field sites as required by DIRM. INNOLOG is also responsible for supporting DIRM's Logistics Management Section, a unit involved with the acquisition, receipt, and management of the FDIC's IT assets. The Logistics Management Section also coordinates the distribution of IT assets to all sites and maintains a nationwide inventory management system. As of July 15, 2000, the number of laptops recorded in the system was 4,358. However, the control weaknesses we identified cast doubt on the accuracy of that number.

During the period of our audit, our Office of Investigations' special agents were investigating the apparent theft of approximately 65 laptop computers. As of March 31, 2001, the agents had recovered 33 laptops. (See related write-up in the Investigations section of this report.)

Our audit concluded that improvements were needed in DIRM's internal controls over the FDIC's inventory of laptop computers. Specifically, DIRM did not ensure that incompatible duties were properly segregated, and FDIC and contractor employees were misusing a "virtual" room called the Hubstore by assigning missing or unaccounted for laptops to the Hubstore instead of promptly reporting the laptops as missing. Also, we found that no recent corporate-wide inventory of laptop computers had been performed. As a result of these weaknesses, laptops were vulnerable to theft without detection. We made four recommendations to address control weaknesses, and management agreed to take action on all of them. Additionally, because our audit raised concerns regarding INNOLOG's performance, we are now pursuing additional work designed to address the contractor's billings and services.

Other IT Work

Additional IT-related work during the period included the following:

- We audited the staffing and training that support the FDIC's Receivership Liability System (RLS) because of impending reductions in the number of RLS-knowledgeable claims personnel resulting from planned corporate organizational downsizing. The Division of Resolutions and Receiverships' (DRR) Dallas Field Operations Branch (DFOB) is responsible for processing claims from depositors and general creditors of failed financial institutions. DFOB Claims personnel attend bank closings, determine deposit insurance, identify those depositors with balances in excess of deposit limitations and general creditors, perform payouts, track claims, and perform customer service functions. In conjunction with DIRM, DRR developed RLS as a tool to assist with the claims function at a cost of $8 million.

  Our audit concluded that DRR and DIRM have adequately planned for reduced Claims and RLS-related staffing levels that will result from corporate downsizing. Regarding training, we identified enhancements that we believe could improve DRR and DIRM's training program. DRR and DIRM officials agreed with the actions we recommended to enhance training.

- The Corporate Human Resources Information System (CHRIS) is an integrated human resources management system. The FDIC plans for CHRIS to ultimately provide a system to support all corporate human resources functions. We determined that the CHRIS project team successfully implemented Release I of CHRIS in the FDIC's Atlanta and Memphis regions. In doing so the project team managed costs effectively, gained user acceptance, and implemented Release I in a timely manner. However, we noted that the security features of Release I did not meet the FDIC's security standards for password management and system auditing and would require manual intervention to reduce risk to an acceptable level. Because the project team was in the process of developing compensating controls to reduce the security risk to a reasonable level and because our office would continue to monitor subsequent releases of CHRIS, we did not make recommendations in this report.

Ensuring Sound Controls and Oversight of Contracting Activities and Agreements

The private sector provides goods and services to the Corporation as needed through contracting to assist the FDIC accomplish its mission. Contractors assist the FDIC in many areas, including IT, legal matters, property management, loan servicing, asset management, and financial services.

Maintaining a strong system of internal controls and effective oversight of contracting activities is critical to the FDIC's success. The Corporation has taken a number of steps in this regard, such as providing training, making revisions to the Acquisition Policy Manual, and conducting a Contractor Oversight Summit and a Contracting Best Practices conference. It has added a goal regarding contractor oversight to its Annual Performance Plan, which is formulated in accordance with the Government Performance and Results Act. The FDIC plans to continue its work in these areas.

Projections of year 2001 non-legal contract awards and purchases total 2,000 actions valued at approximately $360 million. One of the most active areas of contracting in the Corporation regards IT. As of March 31, 2001, there were more than 226 active information resources management contracts valued at approximately $277 million that had been awarded in headquarters. Approximately $89 million of this expenditure authority for active contracts had been spent and $188 million remained to be used as of that time.

Highlights of some audits we performed during the current reporting period follow.

Audits of Two Contracts Related to the General Services Administration Program Yield $3.4 Million in Questioned Costs

During this reporting period, two audits (further discussed below) were performed of billings by contractors that the FDIC selected using the General Services Administration's (GSA) Federal Supply Schedule (FSS) procurement program. Under the FSS program, GSA prescreens and selects contractors based on certain criteria. This program may also establish hourly rates for various labor categories based on employees' experience and education. The FDIC selects contractors from the GSA FSS to streamline the contracting process and reduce lead time and administrative costs.

$2.3 Million of QSS Group's Information Technology Billings Questioned

We questioned a total of $2,305,507 of $21,906,974 in the QSS Group's invoices that we reviewed, because the billings were not in accordance with the contract. Of that amount, we questioned $2,230,433 in labor charges because the contractor billed (1) personnel at higher labor rates than justified by their qualifications, (2) labor costs to contracts with available funds that were allocable to other contracts that had reached their funding caps, (3) unapproved subcontractor markups, and (4) unallowable administrative labor charges. Additionally, we identified other matters concerning QSS's use of different labor mixes from those that were proposed, QSS's "best customer rate" certification made to GSA, the physical presence of QSS personnel, and the validity of QSS's off-site labor rates. Management agreed with our recommendations.

$1 Million of ACS Billings Questioned

The OIG questioned $1,064,364 of the $17.8 million that the FDIC paid to ACS Government Solutions Group (ACS) primarily for professional services billed. Of that questioned amount, the majority of it ($986,191, or 93 percent) was for ACS employees who did not meet the education and/or experience requirements represented in its FSS contract with GSA. In addition, we questioned $75,587 for one employee who disclosed to ACS on his employment application that he was a convicted felon. The FDIC's Acquisition Policy Manual and the Code of Federal Regulations (12 C.F.R. 366.4) both prohibit a convicted felon from performing services under an FDIC contract.

OIG Questions $1.7 Million Regarding Administration of Employee Benefit Plans for Failed Financial Institutions

The OIG audited American Pension Management's (APM) administration of failed financial institution employee benefit plans for the FDIC. Based on the audit results, the OIG recommended that the FDIC disallow $1,724,213 that APM inappropriately withdrew from litigation settlement award accounts or billed for services that it could not support.

Specifically, APM did not provide the FDIC with records necessary to complete audits of the Goldome and Meritor pension plans. Moreover, APM did not always properly account for and distribute litigation settlement awards for Goldome, Centrust, and Amerifirst. We identified $305,011 in questionable transfers, withdrawals, and lost interest from litigation settlement award accounts and at least $77,439 in litigation settlement award funds that APM had not distributed to award participants or returned to the FDIC. In addition, we questioned $1,419,202 that APM billed the FDIC for services performed for the Goldome, Meritor, Centrust, and AmeriFirst failed financial institutions pension plans because APM did not provide support for those billings.

$76 Thousand in Architects' Billings for Renovations Questioned

The OIG audited the professional fee billings that The Ratcliff Architects (Ratcliff) submitted to the FDIC for services performed under a contract to provide for architectural and engineering services associated with the renovation of the FDIC's San Francisco Regional Office.

Of the $607,730 that Ratcliff billed the FDIC, we questioned $76,009, or 13 percent, because the fees Ratcliff billed did not conform with the contract and, therefore, are unallowable. The unallowable charges included fees that were: incurred outside the contract period, for indirect personnel and expenses, for unsupported time charges, and for labor categories that were either charged at higher rates than allowed or for employees who were not qualified for the rates charged.

Final Evaluation Completed for MCI Voice and Video Services Contract

The Office of Congressional Relations and Evaluations completed the final evaluation in a series of evaluations associated with the FDIC's Voice and Video Long Distance Services Contract (Contract) with MCI WorldCom, Inc. This evaluation addressed whether the FDIC effectively and efficiently monitored the Contract.

We saw evidence that oversight managers reviewed all invoices and Contract modifications (and the invoices were processed timely), consistently identified invoice errors, and monitored day-to-day telecommunication operations. However, we concluded the FDIC could have done more to: (1) ensure MCI's compliance with a Contract price warranty before executing option years to the Contract. We concluded that the FDIC might have achieved lower pricing earlier in the Contract had the FDIC more closely monitored the price warranty; (2) assess the impact and appropriateness of a Contract modification to institute an intrastate surcharge. As a result, the FDIC paid $1.17 million in surcharges over the first 3 years of the Contract that were not supported by tariff and risked paying almost $850,000 more in surcharges during the final 2 years of the Contract; and (3) review invoices more effectively and efficiently.

The FDIC's Division of Administration and DIRM have taken actions that should improve the efficiency of the invoice review process and address the contract oversight coordination and communication issues identified.

Contractor Background Investigation Process Audited

After reviewing the contractor background investigation process, the OIG concluded that the process for requesting, tracking, and documenting contractor background investigations was improved by the implementation of internal control procedures and a database tracking system during 1999. However, contractor background investigation policies did not consistently cover all contractor personnel. Further action was needed to ensure compliance with applicable laws and regulations, and we made recommendations to strengthen the Corporation's process for contractor background investigations. The Corporation agreed to take actions to address our concerns.

OIG Continues to Participate in the FDIC's Contractor Oversight Project

Continuing the OIG's involvement in the Corporation's Contractor Oversight Project, on January 10, 2001, the OIG took part in a Contract Oversight Best Practices Conference, one of several in a series sponsored by the Office of Internal Control Management (OICM). The conference was attended by a cross-section of corporate staff whose work is related to contracting. The OIG is also participating in another OICM-sponsored initiative to evaluate project management courses that could be included in the oversight manager curriculum. The OIG supports the efforts of OICM in trying to improve contract oversight within the Corporation, and we will continue to coordinate with OICM and other FDIC divisions on this significant initiative.

Over $500 Thousand in Duplicate Advances Claimed by Securitization Transaction Servicer

During this reporting period we conducted two audits related to securitization transactions[1] that are serviced by PNC Mortgage (PNC); DRR has a financial interest in the sound operation of these securitizations. DRR is responsible for resolving failed institutions and managing/liquidating remaining assets at the maximum price in an effective, timely, and efficient manner. The OIG helps ensure that the FDIC's interests in securitizations are adequately protected and that the related entities are performing adequately under the various agreements.

By way of background, during 1999 and 2000 the OIG performed audits of nine securitization transactions serviced by Ryland Mortgage Company (Ryland) and issued nine reports with total combined questioned costs of $7.1 million. On May 16, 1998, PNC acquired the servicing rights for securitizations previously serviced by Ryland. Because of the numerous errors disclosed in the Ryland audit reports and discussions with DRR management, the OIG decided to perform an audit of two of the Ryland securitizations that transferred to PNC.

The first PNC-related report performed during this semiannual reporting period presented the results of the OIG's audit of the claims made to the credit enhancement reserve funds for securitization transactions 1992-03 and 1992-04. The OIG concluded that PNC made claims to the reserve funds that were deemed to be unallowable and unsupported. These claims included principal and interest advances on certain loans that had also been claimed by Ryland. In total, the OIG identified $441,764 in questioned costs. Of that amount, $401,309 related to unallowable costs and $40,455 related to unsupported costs. Also, $187,248 of the total questioned costs related to previous errors by Ryland.

As a result of the findings of this audit, a second audit was initiated to

OIG Provides Information on Contractor Overpayments to House Committee on Government Reform

During this reporting period we responded to a request from Congressman Dan Burton, Chairman of the House Committee on Government Reform. The Chairman had asked Offices of Inspector General (OIG) to provide him with examples of significant overpayments to contractors identified in the past 3-5 years. Last year the Chairman introduced legislation that would have required agencies to conduct "recovery auditing" for certain contracts as a means to recover contractor overpayments. He intends to reintroduce the legislation during this session of the Congress.

Our response to the Chairman contained a listing of audit and evaluation reports issued during the past 5 years (and also provided copies of each report) in which we identified overpayments totaling $25,408,118. Additionally, we briefly explained the FDIC OIG's work related to an extensive program of certified public accountant (CPA) audit-related reviews of contractors managed by the Resolution Trust Corporation's (RTC) Office of Contractor Oversight and Surveillance. At RTC's sunset, the FDIC OIG assumed responsibility for completing these reviews and also for working with FDIC management to evaluate the effective resolution of more than 1,000 open recommendations involving substantial questioned costs resulting from these CPA reviews. As a result, the FDIC OIG issued 91 reports identifying $25 million in monetary exceptions for recovery. Further, as a result of the joint initiative to resolve the open recommendations, FDIC management disallowed or sought to recover more than $120 million.

[1] 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.

review additional securitization transactions serviced by PNC to see whether additional duplicate advances were claimed by PNC for all eight securitization transactions that it acquired from Ryland. During the audit, the OIG identified $96,359 of disallowed questioned costs related to four of the eight securitizations.

Ongoing audit work is covering such issues as reviewing: the contractor that developed the GENESYS and ALERT systems, both cost recovery and improvement of FDIC's controls over securitization transactions, the Legal Division's internal process for reviewing and approving fee bills (which is a follow-up to a July 1998 audit), and modifications to a construction contract.

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, vision, and strategic goals and objectives; an annual performance plan that translates the vision and goals of the strategic plan into measurable annual goals; 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 of 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 is 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 performance plans and reports clearly inform the Congress and the public of the results and outcomes of 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 semiannual report. The Congress attaches great importance on 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. We believe the congressional guidance represents an appropriate direction for all Offices of Inspector General.

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 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, one of the goals of our planning effort this year is to align our audit work more closely with the Corporation's strategic plan and performance 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 its update or cyclical preparation of strategic and annual performance plans and reports.

Examples of OIG findings and recommendations during the reporting period that are linked to Results Act issues and concepts include our work on the FDIC's Application Maintenance Budgets, where we offered a series of recommendations designed to improve DIRM's management of application maintenance expenditures. Our recommendations were based on generally accepted industry standards, FDIC-specific needs, and sound IT management principles espoused in key legislation, such as the Clinger-Cohen Act of 1996 and the Results Act. These recommendations not only encourage greater accountability but also improve DIRM's ability to plan, estimate, and justify application maintenance.

OIG Reviews FDIC Data Verification and Validation Processes

The Office of Congressional Relations and Evaluations evaluated the degree to which FDIC program offices were verifying and validating information presented in FDIC Results Act performance reports. The intent of this review was to evaluate the corporate-wide processes and practices used to verify and validate performance data.

During our review we provided interim observations and comments to the Division of Finance (DOF) on the Corporation's *2001 Annual Performance Plan* as it was being developed. Our comments addressed the completeness of the descriptions for verifying and validating data related to performance goals. Improvements were made to the plan as a result of our comments and increased attention to the descriptions on the part of DOF.

The second phase of the review focused on evaluating the verification and validation procedures used for 16 performance goals reported on by the Division of Supervision, DRR, Division of Insurance, and Division of Compliance and Consumer Affairs in the *FDIC Quarterly Performance Report - 2nd Quarter 2000*. Overall, documentation provided by Results Act divisional coordinators supported the data included in the *FDIC Quarterly Performance Report - 2nd Quarter 2000* for 15 of the 16 goals, but there was no 2nd quarter data for one goal. During our interviews Results Act divisional coordinators provided adequate explanations of processes in place to verify and validate performance data. Nevertheless, divisions could better document those processes.

Moreover, divisions relied on systems controls as one means for verifying data, but Results Act divisional coordinators did not have documentation to support those controls and some referred the OIG to DIRM. We also found that divisions were beginning to use surveys to obtain performance data, but coordination among divisions in developing these surveys could be better.

Finally, as a response to a request from DOF, we researched which approaches other federal agencies were taking to develop an overall statement on data verification and validation in annual performance reports.

As a result of our work, DOF agreed to:

- Emphasize to Divisions and Offices in each quarter's request for performance results that documentation should be retained that indicates that verification and validation procedures have been applied.
- Encourage Results Act divisional coordinators to work with DIRM officials to identify and confirm the existence and reliability of the information systems controls relied upon for verifying and validating performance data.
- Include a discussion of survey tools in its performance reporting guidance and state that Divisions and Offices consult with the Division of Research and Statistics when developing surveys to collect data.

DOF will also begin requiring Division and Office Directors to certify the completeness and reliability of their annual performance data. These certifications will be consolidated into an overall statement on data quality to be included in the annual *Program Performance Report*.

OIG Reviews Corporate Results Act Plans and Reports

During this reporting period the OIG also reviewed and provided advisory comments to management on the FDIC's *2001 Performance Plan* and *2000 Program Performance Report*. The purpose of our reviews was to provide observations and suggestions for enhancing the Corporation's performance plan and report based on our knowledge and OIG work related to the Results Act. Many of our suggestions have been adopted by the Corporation. In addition, we reviewed the plan and report to determine if they were in compliance with the Results Act and related OMB guidance. 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. We plan to continue to work with the Corporation to improve the FDIC's performance measurement and reporting through our audits, evaluations, and management advisory reviews and analyses. The OIG will also continue to monitor and review legislation proposed in the Congress to amend the Results Act and will actively participate to refine appropriate OIG Results Act roles, responsibilities, and activities through the President's Council on Integrity and Efficiency and the interagency groups it sponsors.

Addressing Human Capital Issues

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 6,429 as of March 31, 2001. 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 must continue to conserve and replenish the institutional knowledge and expertise that has guided the organization over the past years. Hiring and retaining new "federal" talent will be extremely important, particularly given the competitive job market and lure of the private sector.

Another consideration will be determining where corporate employees will be housed over the long-term. Millions of dollars are spent on leases throughout the country. After considering the many changes in the financial industry, trends such as telecommuting, the increased use of technological tools to perform work, and continued attrition, the Corporation may need to relocate or establish new work sites and capabilities for a portion of its staff over time.

To implement a successful human capital framework, organizations need information systems that allow managers to identify skill imbalances and project future needs. Also of importance is that the Corporation's human capital strategy and workforce planning system are directly linked to the FDIC's overall strategic and performance plans.

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 critical to improving performance and accountability.

In our last semiannual report, we reported that the Corporation was working with a consultant to identify issues and define a process for developing a human capital strategic plan. To update that status, we have been told that a draft report has been received from the consultant, but it was undergoing revision as of the close of our reporting period. The Corporation informed us that it has begun drafting a human capital strategic plan. The OIG will continue to monitor the progress of the Corporation's efforts in this area.

The OIG is also conducting a review of DOS's management of human capital and another related to DIRM as well as a review of field office costs and utilization. Additionally, our work with DOS in its process redesign project may lead to changes in human capital strategies for DOS examination and other staff.

Containing Costs and Assessing Business Processes

The Corporation's budget outlook for 2002 is challenging, because at present there are not sufficient reductions to offset the increase in salaries and benefits. Accordingly, 2001 is an important year for identifying ways to contain and reduce costs, either through more careful spending or by assessing and making changes in business processes that increase efficiency.

Following several years of downsizing, the Corporation is now focusing on the efficiency of its business processes. The banking industry is placing increased scrutiny on the operating expenses of the Corporation. In addition, the FDIC can no longer count on savings from office closings to offset the projected increases in personnel compensation costs.

The Corporation is taking steps to increase emphasis in this area. Several initiatives are in progress to better understand what the various business processes and activities within the FDIC cost, how they can be made more efficient, and how they compare to private and public sector entities.

The OIG is fully supportive of this endeavor. Managers must have current and valid cost information to sufficiently assess business operations. Further, goods and services should only be acquired when a business case exists to support doing so. Our reviews have shown, and the Corporation has acknowledged, that, at times, these two basic tenets of sound management are not always in place or followed.

Based on the Chief Financial Officer's request, the OIG has taken a key role in looking at the cost of providing administrative services, as discussed in more detail below. Similarly, we are participating in task groups formed by DOS as part of its process redesign efforts to evaluate how it carries out the supervision and insurance functions. We have included several reviews in our *2001 Audit and Evaluation Plan* that will assess processes, acquisitions, and contracts and focus on increasing efficiency and ensuring that the Corporation is getting maximum value for its investments and expenditures.

OIG Issues Results of Two New Congressional Reporting Requirements

During the reporting period the OIG completed its work related to two new congressional reporting requirements. Specifically, we responded to a new law requiring that Inspectors General conduct quarterly reviews of their agencies' payments of District of Columbia water and sewer bills. We issued a letter to the Appropriations Committees of the House and Senate advising them that the FDIC had paid its account timely during the year 2000, with one minor exception. The FDIC did not incur any late fees related to such payments.

Additionally, we informed various members of the House and Senate Appropriations Committees, Subcommittees on Treasury, Postal Service and General Government, and members of the Senate Governmental Affairs Committee of the results of another mandated review. We reported that our work identified no instances of the FDIC collecting personally identifiable information about individuals who access the FDIC's Web sites. It is the FDIC's policy that no Web product may be developed to track the activities of users over time and across different Web sites. In addition, we identified no agreements between the FDIC and third parties to collect information regarding individuals' access to Internet sites or viewing habits.

OIG and OICM Identify Possible Efficiencies for Administrative Services Functions

During the reporting period the OIG joined with OICM and completed a study of the administrative services functions throughout the Corporation to assist FDIC management in its effort to improve operational efficiencies and reduce costs. The first phase of the study focused on those services provided by the Division of Administration (DOA), namely personnel, training, acquisition, and facilities management. We did not identify significant instances of duplication between DOA and other divisions. However, we noted that divisions and offices other than DOA had a large number of staff devoted to complementary activities, and it appeared that opportunities to improve efficiency existed.

As result of our observations from Phase I, management requested that we focus on the Corporation's training and personnel functions in Phase II of the study to identify what efficiencies could be gained from (1) eliminating duplicate or non-critical functions based on workload or benchmarking, (2) changing the level and types of services provided or how they are provided, and (3) fully utilizing information technology.

During Phase II we identified a number of issues for management's consideration and further examination that could lead to gains in operational efficiency, such as:

- Increase efficiency in the Performance Improvement System,
- Coordination of regional training activities,
- Cost and benefit data provided to clients before they initiate training or organizational development projects,
- Utilization of computer based instruction,
- Ratio of personnel employees to total employees,
- Extent of staff devoted to certain personnel functions, and
- Long-term effect that technology will have on workload and staffing needs.

In addition to ongoing work to address some of these issues, FDIC management hired a contractor to further assess DOA's training and personnel areas. This contracted work is largely based on the work that was done and issues we raised during Phase II of the study. In addition, the contractor will assess the impact of existing administrative activities in other divisions and offices. After reviewing these functions, the contractor will recommend efficiencies and ways to reduce costs in these areas.

Additionally, we will join with OICM in another review focusing on the level of resources currently allocated to the Strategic Planning, Core Staffing, and Budget Formulation processes throughout the Corporation to identify areas for possible process improvements. At the request of the Chief Financial Officer, the OIG will also be reviewing the Corporation's internal control and internal review programs. We will discuss our results in an upcoming semiannual report.

GAO/OIG's Successful Financial Statement Audit Partnership Continues

In 1996 the FDIC OIG and U.S. General Accounting Office (GAO) management formed an important partnership. Its primary goal was to train certain OIG staff to perform and assume full responsibility for the financial statement audits of the FDIC. Every year since then the OIG auditors have been provided with a combination of on-the-job and formal classroom training in financial audit techniques and theory. The process of transferring full responsibility for the annual financial statement audit from GAO to the OIG continued during the reporting period as the audit team further built upon its collaborative efforts.

While performing the audits of each fund's financial statement, the FDIC's internal control, and compliance with certain laws and regulations, the GAO/OIG audit team successfully implemented continuous auditing techniques that resulted in audit opinions that were completed 1 month ahead of last year and almost 2 months ahead of the statutory requirement of June 30. This accomplishment assists the Corporation in more timely preparation and issuance of its own required reports that discuss the FDIC's financial results and the adequacy of the Corporation's internal control. Also, because the team's continuous audit testing occurs during regularly scheduled intervals, FDIC personnel are able to better plan their workload related to the financial audits and more efficiently coordinate information requests.

In addition, throughout the course of the 2000 audits, the team was able to provide the Corporation with immediate feedback to which the Corporation could respond promptly. For instance, the team:

- provided management with feedback regarding certain disbursement transactions with discrepancies, and management took corrective action before several other such transactions could occur and
- presented improvements for implementing changes to the asset valuation process, which the FDIC adopted.

Going forward, the GAO/OIG team plans to continue to maximize the benefits of its partnership and build upon previous achievements. Additionally, the team will continue to ensure that in addition to focusing on the fairness of the Corporation's financial statements and reporting on internal controls, the team's efforts will lead to specific internal control improvements and further promote public confidence in the Corporation.

theft fraud embezzlement bribery

INVESTIGATIONS

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 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 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 to deter others from participating in similar crimes.

Investigative Statistics

October 1, 2000 - March 31, 2001

Judicial Actions:	
Indictments/Informations	11
Convictions	14
OIG Investigations Resulted in:	
Fines of	$ 12,000
Restitution of	42,477,113
Monetary Recoveries of	22,796,489
Forfeitures based on Asset Seizures	1,754,000
Total	$67,039,602
Cases Referred to the Department of Justice (U.S. Attorney)	26
Referrals to:	
FDIC Management	4
OIG Cases Conducted Jointly with Other Agencies	59

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 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 Middle District of Florida, Southern District of Illinois, District of Maryland, District of Montana, Middle District of North Carolina, Eastern District of Oklahoma, Western District of Oklahoma, Eastern District of Tennessee, Northern District of Texas, Southern District of Texas, Western District of Texas, Eastern District of Virginia, and the Southern District of West Virginia.

Support and cooperation among other law enforcement agencies is also a key ingredient for success in the investigative community. We frequently "partner" with the Federal Bureau of Investigation (FBI), the 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 16 new cases and closed 42 cases, leaving 123 cases underway at the end of the period. Our work during the period led to indictments or criminal charges against 11 individuals. Fourteen defendants were convicted during the period. Criminal charges remained pending against 8 individuals as of the end of the reporting period. Fines, restitution, and recoveries stemming from our cases totaled over $67 million. 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 Former Officers of the First National Bank of Keystone Indicted on Charges of Bank Embezzlement, Conspiracy to Commit Bank Embezzlement, and Mail Fraud

On March 22, 2001, two former officers of the failed First National Bank of Keystone (Keystone), Keystone, West Virginia, one of which was the former bank chairperson and the other of which was the bank's former senior executive vice president and chief operating officer, were indicted by a federal grand jury on charges of bank embezzlement, conspiracy to commit bank embezzlement, and mail fraud. The former bank chairperson, who is currently the Mayor of the town of Keystone, was also charged in the indictment with money laundering.

According to the indictment, the purpose of the conspiracy, which began in October 1997, was "to loot the estate of J. Knox McConnell and to obtain monies and properties to which they were not entitled." McConnell was the bank's president from 1977 until his death on October 26, 1997. The former senior executive vice president and chief operating officer was executrix of McConnell's estate. As alleged in the indictment, after McConnell's death, the two former bank officers falsified bank books and computer records, signature cards, and savings passbooks for McConnell's accounts to make it appear as if the former bank chairperson was a joint owner of his funds. The two are charged with four counts of bank embezzlement for transferring a total of $4.28 million from McConnell's accounts to accounts in the name of the former bank chairperson for her personal use and benefit.

The former bank chairperson was also charged with 16 counts of money laundering based on alleged transfers of money in and out of her bank accounts that she knew was "criminally derived." She is alleged to have given the money to her relatives and made cashier's checks out to herself, to an automobile dealership, and to buy McConnell's condominiums in Pittsburgh and Florida. The indictment calls for the property and money the women received to be forfeited if they are convicted. That property would include $4.28 million, a 1956 Ford Thunderbird, and the two condominiums.

As we previously reported, the former senior executive vice president and chief operating officer was convicted and sentenced last year on charges of obstructing an examination of the bank and is currently in prison serving a 57-month sentence. The examination, which was being conducted by the Office of the Comptroller of the Currency, uncovered information that ultimately resulted in the closure of Keystone on September 1, 1999. As the receiver of the bank's assets, the FDIC has thus far reported losses to the insurance fund attributable to Keystone that make it one of the ten most costly bank failures since 1933.

The former executive vice president of Keystone Mortgage Corp., a subsidiary of the bank, was also named as an unindicted co-conspirator in the most recent indictment. He was convicted last year as well on charges of obstructing the same bank examination and is currently in jail serving a 51-month sentence. Following his conviction and sentencing in the obstruction case, he pleaded guilty last November to charges of conspiracy, money laundering, and bank fraud. He was still awaiting sentencing on those charges at the end of this reporting period.

The investigation and prosecutions involving Keystone are being conducted by a multi-agency task force comprised of Special Agents of the FDIC OIG, FBI, and IRS and prosecutors from the U.S. Attorney's Office for the Southern District of West Virginia and the U.S. Department of Justice. The FDIC Division of Resolutions and Receiverships has also provided critical support to the efforts of the task force.

Two Former Executives of Famed Kentucky Horse Farm Are Sentenced to Prison and Ordered to Pay $41 Million in Restitution After Being Found Guilty of Offering $1.1 Million Bribe to Bank Director

The former president and the former chief financial officer of Calumet Farm (Calumet), a famed Lexington, Kentucky, thoroughbred horse farm, were sentenced to prison for terms of 4 1/2 years and 21 months, respectively. Additionally, each defendant was ordered to pay restitution of $20.5 million. The sentencings culminated from a joint investigation by the OIG and the FBI into allegations that fraud on the part of First City officials and borrowers caused the bank to fail in the early 1990s, shortly after Calumet, one of its largest loan customers, went bankrupt. This case was prosecuted by the U.S. Attorney's Office for the Southern District of Texas.

As previously reported, in February 2000, a federal jury found the former executives guilty of four counts of false statements, bribery, conspiracy, and bank fraud. The two defendants were convicted of offering a $1.1 million bribe to the vice chairman and a director of the bank to obtain $65 million in unsecured loans in the late 1980s and early 1990s for the financially troubled farm. The vice chairman and a director of the bank, who was alleged to have used his position with the bank 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, continues to serve a total of 22 years' imprisonment imposed after two federal trials in 1994 and 1996. Also prosecuted as a part of this case was a stable groom who worked for Calumet. 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.

Prosecutions of Former Official and Two Customers of Murphy-Wall State Bank Proceed

Updating the results of investigations and prosecutions we have previously reported involving Murphy-Wall State Bank (MWSB), Pinckneyville, Illinois, the former executive vice president of the bank was sentenced in November 2000 to 1-year's probation and was fined $2,000. On March 1, 2001, the owner of a company that was a customer of MWSB entered a guilty plea in the U.S. District Court for the Southern District of Illinois to a one-count information charging him with bank fraud. As previously reported, the former executive vice president of the bank and the bank customer were charged last year in connection with a loan fraud scheme. The former bank official also signed a Stipulation and Consent agreement with the FDIC resulting in a corresponding order prohibiting him from participating in the operations or affairs of any federally insured depository institution.

On February 8, 2001, another customer of MWSB pleaded guilty to an information charging him with one count of bank fraud. As described in the plea agreement, that customer was the president of an automobile dealership that had a floor plan agreement with MWSB. The agreement stipulated that the customer would remit proceeds from the sales of vehicles to MWSB within 1 business day of the date of sale. MWSB made 14 loans and subsequent renewals to the dealership totaling $153,000 that were secured by 14 individually identified vehicles that were purchased by the dealership for resale. The customer subsequently sold these 14 vehicles without obtaining the bank's approval and failed to remit the proceeds from the sales as required.

The investigations involving MWSB are being conducted jointly by the OIG, the FBI, and the IRS, and the prosecutions are being handled by the U.S. Attorney's Office for the Southern District of Illinois.

President of Credit Card Servicing Company Sentenced for Bank Fraud

An Illinois resident who operated a company that serviced credit cards for banks located in Illinois, Ohio, and New York was sentenced on January 12, 2001 in the Southern District of Illinois to 24 months' incarceration followed by 5 years' probation. He was further ordered to pay restitution totaling $957,475 to eight victim banks or their related insurance companies.

As reported previously, the president of the card servicing company pleaded guilty in June 2000 to an indictment charging him with bank fraud relative to his actions and his operation of his company which contracted to provide banks with the necessary services to administer and process MasterCard and VISA credit cards. The indictment alleged that he made false representations to these banks as to the amount of money credited to and debited from their accounts and, from time to time, withdrew funds from the banks' accounts without authorization.

The FDIC is the primary regulator of three of the banks. This case was jointly investigated by the OIG and FBI and was prosecuted by the U.S. Attorney's Office for the Southern District of Illinois.

Former Internal Control Officer of Fort Gibson State Bank Sentenced Following Plea of Guilty to Embezzlement Charge

On January 4, 2001, the former internal control officer of Fort Gibson State Bank, an FDIC-insured bank in Fort Gibson, Oklahoma, was sentenced to 15 months' imprisonment followed by 36 months' probation. She was also ordered to pay $291,144 in restitution.

As reported previously, the former internal control officer confessed last year in her plea agreement that, during the period 1990 through 1998 while employed by the bank, she embezzled in excess of $250,000 of bank funds and misapplied the embezzled money into her personal bank account and bank accounts of members of her family. Her sentencing concludes this investigation which also resulted in the successful prosecution of the former senior vice president and director of Fort Gibson State Bank on a charge of misapplication of funds. The investigation was jointly conducted by the OIG and FBI and prosecuted by the U.S. Attorney's Office for the Eastern District of Oklahoma.

Former Bank Official and Bank Customer of First State Bank, Harrah, Oklahoma, Plead Guilty to Conspiracy to Commit Bank Fraud

On February 9, 2001, a former executive vice president of First State Bank, Harrah, Oklahoma, and a cattle broker who was a customer of the bank pleaded guilty to one count of conspiracy to commit bank fraud.

As described in the Criminal Information filed against them, the two men participated in a scheme to defraud the bank by creating a series of 11 fraudulent nominee loans. From August through December 1998, they recruited nominee borrowers and created fictitious nominee borrowers to obtain the loans. (A nominee borrower is a person or entity whose name is used for the purpose of obtaining a bank loan when the proceeds are actually used for the benefit of another.) The former executive vice president used his position at First State Bank to prepare loan documents, secure loan approvals, and disburse the loan proceeds to the cattle broker's employer. The loan proceeds from this scheme totaled $1,703,500.

This ongoing investigation is being conducted jointly by the FDIC OIG and the FBI, and the case is being prosecuted by the U.S. Attorney's Office, Oklahoma City, Oklahoma.

Two Defendants Sentenced for Conspiracy to Submit False Loan Applications to a Financial Institution, a Third Sentenced for Making a False Entry in a Record of Comerica Bank

On November 30, 2000, two Dallas, Texas, residents were sentenced after pleading guilty to conspiracy to submit false loan applications to a financial institution, the FDIC-insured Comerica Bank. One defendant was sentenced to 8 months' confinement, 4 months to be served at a halfway house and 4 months in monitored home confinement. The other defendant was sentenced to 14 months in prison. The confinement of each of the two men is to be followed by 3 years' supervised release, and each man was ordered to make restitution of $84,193. On the same date, a former employee of Comerica Bank was sentenced after pleading guilty to making a false entry in a record of the bank. She was sentenced to serve 15 months in prison to be followed by 5 years' supervised release and was ordered to pay a fine of $10,000. This case was jointly investigated by the OIG and FBI and prosecuted by the U.S. Attorney's Office for the Northern District of Texas.

As previously reported, during a period from at least October 1997 through January 1998, Comerica Bank had a Community Reinvestment Act Automobile Purchase Loan Program instituted to help low- to moderate-income individuals with little or no established credit history obtain financing for the purchase of automobiles from dealerships. Persons applying for loans under the program were required to submit references attesting to their stable financial history. The two defendants were salesmen at an automobile dealership who devised a scheme to take advantage of the program by persuading Comerica to approve loans for applicants with bad credit to purchase cars. They carried out this scheme by creating for such applicants fictitious credit references that were submitted with loan applications to the bank through the third defendant, who was employed during this period at the bank's Wynnwood Center branch in Dallas.

Misrepresentations Regarding FDIC Insurance

Bank and Investment Brokerage Company Pay Civil Settlements Totaling over $21.9 Million

Based upon a request from the U.S. Attorney's Office in Tampa, Florida, the OIG investigated an allegation that registered representatives of a joint venture formed by a major bank and large investment brokerage company marketed some investment products to customers of the bank by falsely representing, among other things, that the investments were FDIC-insured. The investigation disclosed a systemic pattern of false and fraudulent misrepresentations and material omissions during the sales presentations to bank customers regarding two proprietary 10-year closed-end bond funds the company marketed. The customers were mostly elderly and extremely risk-averse but often unsophisticated with respect to investment experience.

Using the information obtained during the investigation, the U.S. Attorney's Office negotiated separate civil settlements with the joint venture partners. The investment brokerage company contributed $3 million into a victim reimbursement fund established for the funds' investors, paid the U.S. Attorney's expert witness costs, and paid the FDIC OIG $508,469 for investigative costs. The bank contributed $11.5 million to the victim reimbursement fund and paid a civil monetary penalty of $6.75 million to the United States. Additionally, the bank paid U.S. Attorney's Office costs and the remaining portion of the FDIC OIG's investigative costs. Both the bank and the investment brokerage company also paid an additional $25,000 each to the FDIC OIG for anticipated expenses in monitoring the victim reimbursement process.

Owner/Manager of Oklahoma City Insurance Agency Sentenced on Securities Fraud Violation

On January 24, 2001, the principal owner/manager of an insurance agency located in Oklahoma City, Oklahoma, was sentenced to 14 months' imprisonment and 3 years' probation. As previously reported, the defendant was indicted and pleaded guilty last year to one count of securities fraud.

As charged in the indictment, the defendant became dissatisfied with the profits being generated by his insurance agency and, aided and abetted by others, began seeking high-risk investments that would yield significant returns. He located such an investment opportunity through another company whose officials told him and his associates that an investment of money through their company could earn returns of 6.5 percent or more monthly. In order to obtain money to invest, he began advertising the sale of certificates of deposit (CD) offering high rates of return. He convinced mostly elderly individuals to purchase the CDs and wire-transfer funds to the Bank of America Dallas by representing to them that each CD was issued by the Bank of America and FDIC-insured up to $100,000 as well as privately insured. Further, he represented that the money for the CDs was being invested in a Dallas bank. However, the CDs were in fact issued by an entity established by the defendant for the purpose of collecting money from unwary investors and funneling it into his planned investment with the third company. Additionally, none of the CDs was separately insured by the FDIC or privately insured. Rather, more than $1.3 million of the proceeds from the sales of CDs were commingled in a single bank account in Dallas, resulting in FDIC insurance of only $100,000 of the total amount. Moreover, the indictment alleged that it was the plan and intent of the defendant and his associates to remove the money from the account and make the high-risk investments that were not FDIC-insured.

Simultaneous with the indictment, over $1.3 million was seized that was subsequently redistributed back to the investors to minimize their losses.

This case was jointly investigated by the OIG, U.S. Secret Service, and FBI. The case was prosecuted by the U.S. Attorney's Office for the Northern District of Texas.

San Antonio Investment Broker and Former Financial Relationship Manager for Bank of America Texas Plead Guilty in Connection with Investor Fraud Scheme

On January 9, 2001, the owner of an investment company entered into an agreement with the Bexar County District Attorney's Office to plead guilty to one count of 2nd degree theft and one count of 1st degree securities fraud under the Texas Penal Code. In a related action, on January 18, 2001, the former financial relationship manager for the Bank of America Texas, N.A. (BOA), in San Antonio, Texas, was sentenced in U.S. District Court for the Western District of Texas to 15 months' imprisonment and 3 years' probation. The sentencing followed his prior guilty pleas in November 2000 to two counts of making, uttering, and possessing a forged security of an organization with the intent to deceive another individual. An order of restitution against this defendant is being held in abeyance pending the sentencing of the San Antonio investment broker.

As previously reported, the two men were indicted separately in connection with a scheme whereby they told prospective investors that they had a special arrangement (which they did not have) with BOA. They told investors that because of their special relationship with BOA, the investors would receive a higher-than-usual rate of interest if they purchased BOA CDs through them. The co-conspirators then pledged the CDs as security for loans made to themselves.

The case against the former BOA financial relationship manager was investigated by the OIG and is being prosecuted by the U.S. Attorney's Office for the Western District of Texas. The case against the investment broker was investigated by the OIG, the FBI, and the Texas State Securities Board and is being prosecuted by the Bexar County District Attorney's Office, San Antonio, Texas.

Investment Firm Owner Pleads No Contest to Misapplication of Fiduciary Property and a Securities Registration Violation

On February 12, 2001, the president and owner of an investment firm entered a plea of *nolo contendere* in Bexar County District Court, San Antonio, Texas, to selling unregistered securities and misapplication of fiduciary property. In exchange for his plea, the District Attorney for Bexar County agreed to dismiss the remaining four counts of a six-count indictment returned against him in June 2000 as well as nine other fraud-related indictments still outstanding against him. Scheduling of his sentencing was postponed pending his cooperation with investigators. This case was investigated by the OIG and the Texas State Securities Board and is being prosecuted by the Bexar County District Attorney's Office, San Antonio, Texas.

As essentially alleged in the indictments, the defendant advertised and sold CDs paying relatively high rates of return through his investment company. In total, approximately $9.1 million's worth of CDs were sold to about 90 mostly elderly investors. When investors bought the CDs, however, their contracts included a document giving control of the CD to the defendant. With control of the CDs, he took the CDs to Texas banks and used the CDs as collateral for personal loans. He was alleged in the indictments filed against him to have engaged in fraud by intentionally failing to disclose that he transferred such proceeds to bank and brokerage accounts of businesses he controlled and then using the proceeds for personal expenses and the purchase of a personal residence. Additionally, he was charged with misrepresenting that he was offering CDs that would be issued through an FDIC-insured bank while knowingly omitting the material fact that any purported FDIC insurance would not protect investors from losses of their investment funds due to the defendant's default on his loans.

During the investigation, CDs in excess of $9 million, which were still being held at six San Antonio area banks, were seized by investigators pursuant to seizure warrants obtained by the Bexar County District Attorney's Office. To date, agreements have been reached with several of those institutions to return the seized funds to the defendant's victims. In December 2000, an agreement was reached with one of those institutions, resulting in the distribution to investors of approximately $1,754,000. Negotiations with at least two other institutions are continuing.

During this investigation, CDs that were still being held at several San Antonio area banks were seized and the proceeds were used to repay the investors. However, the banks protested the move, saying that the investment firm owner, not they, should be held responsible. Texas Banking Commissioner Randall James protested the seizures in a letter to the Bexar County District Attorney. Recently, a bill has been filed in the Texas Senate to protect banks from such fund seizures in the future. The bill, which has passed a Texas Senate committee, would let a financial institution keep funds derived from criminal activities if it could prove that it had no knowledge of the crime and did not ignore obvious improprieties. The bill would also let a bank hold funds in a separate account until a court decides whether it had knowledge of any criminal activity. The chief of the Bexar County District Attorney's White-Collar Crime Division in San Antonio has agreed that the law should be changed to let institutions hold the money until a forfeiture hearing. However, he has also pointed out that, in this case, the investigation of whether bank officials improperly accepted the CDs is continuing.

Restitution and Other Debt Owed the FDIC

Strawbuyer in Loan Fraud Scheme Pleads Guilty to Income Tax Evasion and Pays the FDIC $250,000

In February 2001, a strawbuyer who was involved in a scheme with three developers to repurchase defaulted loans at a discount pleaded guilty in U.S. District Court, Phoenix, Arizona, to tax evasion. As a part of his plea agreement, he also paid the FDIC $250,000 to settle all claims against him in connection with his involvement in the scheme.

As previously reported, the three developers involved in the scheme 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 prosecutions in this case were the result of a joint FDIC and 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 that 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 utilized 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 which the RTC denied. In late 1991, the developers repurchased their loans for $9 million from the RTC using a strawbuyer. 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 the developers submitted false financial statements to the RTC, which 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.

Contractor Activities

Former FDIC Contractor Pleads Guilty to Conspiracy and Obstruction of an OIG Audit

On February 27, 2001, a former FDIC contractor appeared in Federal District Court, Orlando, Florida, and pleaded guilty to conspiracy and impeding the functions of the FDIC by obstructing an OIG audit. The former FDIC contractor had been retained to manage the Shelter Cove R.V. Resort, an FDIC-owned property in St. Cloud, Florida. He was still awaiting sentencing on those charges at the end of this reporting period.

As previously reported, the former FDIC contractor was indicted in September 2000 on 38 counts of various types of criminal activities including submission of false invoices, false statements and representations, bid-rigging, and the obstruction of an OIG audit and a subsequent OIG investigation. According to the indictment, he formed a partnership with a subcontractor he had hired to perform repairs to Shelter Cove. The contractor and subcontractor then shared the proceeds of funds received from the FDIC for the payment of repair expenses. The contractor purportedly also submitted false and forged bids to ensure the subcontractor's bid would be lowest. In 1996, when he filled out and signed an FDIC Representations and Certifications statement, the contractor did not reveal the conflict of interest based on his involvement in the partnership. Likewise, in 1998 during an OIG audit of Shelter Cove management contracts, he did not disclose his affiliation with the partnership to the auditors. Further, in 1999 during the OIG investigation of the contractor, he allegedly instructed the subcontractor to conceal any checks written on the partnership account that were made payable to the contractor.

Maryland Man Pleads Guilty to Conspiracy and Second Defendant Charged in Connection with Thefts of FDIC Laptop Computers

On February 20, 2001, a Maryland resident entered a guilty plea in U.S. District Court, Eastern District of Virginia, to a charge of conspiracy in connection with his participation in the theft and resale of laptop computers belonging to the FDIC. In a related action, on February 22, 2001, a criminal complaint was filed charging a former employee of an FDIC contractor with conspiracy in connection with the same theft scheme.

The investigation of the laptop thefts was initiated by the OIG based on a referral from the Division of Information Resources Management (DIRM) stating that a laptop computer was missing and possibly stolen. The computer in question was part of the FDIC computer equipment inventory under the control of an FDIC contractor responsible for inventory management. As described in the plea agreement and related filings, the former employee of the FDIC contractor allegedly used his position to steal computers belonging to the FDIC. The Maryland resident, who was a friend of the contractor employee, assisted in selling the stolen computers to unsuspecting third parties for approximately $600 to $1,200 each. According to the complaint filed against the contractor employee, between approximately October 1998 and December 1999, he allegedly stole at least 50 FDIC computers. As of March 31, 2000, FDIC OIG Special Agents had recovered 33 of the stolen computers.

Employee Activities

Former Deputy Director of DIRM Sentenced to 30 Days in Jail, 3 Years' Probation, and Ordered to Pay Restitution to the FDIC

On February 9, 2001, a former Deputy Director, DIRM, was sentenced to 30 days in jail, 3 years of supervised probation, and ordered to pay the FDIC $2,095 in restitution. He was also ordered to undergo mandatory financial counseling.

The sentencing of the former FDIC official was based on a plea agreement entered in Federal Court in the Eastern District of Virginia in December 2000, wherein he pleaded guilty to a criminal information charging him with one count of making and presenting a false claim to the FDIC in connection with a fictitious business-related trip. As described in the Statement of Facts accompanying the plea agreement, he admitted submitting two false travel vouchers to the FDIC. In addition to the $2,095 restitution ordered at sentencing, he had previously paid $4,189 in restitution to the FDIC as a result of the investigation. The Deputy Director also resigned from his position with the FDIC while under investigation.

Former FDIC Employee Pleads Guilty to Identity Theft Fraud Scheme

A former employee in the FDIC Division of Finance pleaded guilty to conspiracy in connection with an identity theft fraud scheme. The scheme's victims included employees of the FDIC and the Department of Health and Human Services (HHS).

According to the Statement of Facts filed as part of the guilty plea, from August 1999 through June 2000, the FDIC employee conspired with five others to obtain goods and services on credit by using the names and personal information of unwitting victims. The employee admitted that the conspirators obtained fraudulent identification cards in the victims' names and used those names to open credit accounts, obtain goods and services in retail stores, and order merchandise over the Internet. Purchases included gift certificates, jewelry, and electronic equipment. In furtherance of the conspiracy, the FDIC employee checked the victims' credit status by applying for credit accounts using the victims' names, Social Security numbers, and other identifying information.

Four of the other five defendants in the case have pleaded guilty to Access Device Fraud and the fifth is awaiting trial. This case was investigated by the Inspectors General of the FDIC and the HHS and is being prosecuted by the U.S. Attorney's Office for the District of Maryland.

OIG Coordination with DRR Results in Joint Investigative Cases That May Recover Millions of Dollars

The OIG continued to coordinate with the Division of Resolutions and Receiverships (DRR) both at headquarters and in 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 takeovers of failed banks and thrifts. As noted in previous semiannual reports, 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, 2001, a total of nearly $952 million is due as a result of outstanding criminal restitution orders.

Additionally, the FDIC is continuing 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 based on indications that the debtors may have made false statements concerning their assets or their ability to pay. Some of these cases involve elaborate schemes to conceal assets, including illegal transfers to others. They also involve, in some instances, the filing of fraudulent bankruptcies to avoid payment. The OIG's participation in pursuing these matters offers investigative techniques not otherwise available to DRR, such as serving subpoenas, conducting surveillance, executing search warrants, and interviewing various subjects.

As of March 31, 2001, the OIG is conducting 45 investigations that are being coordinated with DRR and involve over $288 million in outstanding restitution orders and other types of debt.

human capital high performance working relationships

OIG ORGANIZATION

Over the past few years, the OIG has worked hard to create an organization that is committed to high performance. Such a commitment requires dedication to improving our work and adapting to the rapidly changing workplace through continuous cycles of self-evaluation, learning, and change. It also requires investment in our most important asset – our people. To ensure the relevance and value of our work, we have continued to seek and respond to opportunities to add value to the Corporation and help it to achieve its goals. In doing so, we have been able to learn more about how we can best assist in meeting emerging challenges in such areas as containing costs, assessing the efficacy of business processes, and managing information technology. Working with the Corporation on joint initiatives is also helping us to more fully develop our staff by providing challenging opportunities for them to learn and grow. Becoming more involved with corporate initiatives is also enabling us to better plan for work that will add the most value to the Corporation; providing better insight on where to deploy our resources; and identifying additional skills and knowledge that staff need to maximize the OIG's effectiveness.

Investing in Our Human Capital

During this reporting period we have furthered our efforts to value our people and improve our processes and working relationships. We have moved forward to establish human capital as a top priority and recognize that employees are assets whose value can be enhanced through investments. Our planning for a 2001 office-wide conference includes Human Capital as the primary theme. We also initiated development of the OIG's *Human Capital Strategic Plan*, which is a multiyear plan that focuses on bringing the OIG's human resource goals and activities in line with the OIG mission. The plan will be introduced at the upcoming office-wide conference.

The OIG continues to be committed to improving the quality of our work by investing in the growth and development of all of its staff. During this reporting period several staff attended leadership training offered by the John F. Kennedy School of Government, the Aspen Institute, and the Aspiring Leader and Executive Potential Programs sponsored by the USDA Graduate School. Other staff are adding to their technical expertise through various initiatives. The OIG offered classes to upgrade our auditors' skills in systems controls and information systems auditing concepts. Our investigations staff held a training conference to provide hands-on training in defensive tactics and firearms and to address emerging regulatory and legislative issues affecting Investigation programs. Staff are also learning and developing through: attendance and participation at professional conferences, our rotation policy which allows audit and evaluation staff to move among various work units to broaden their expertise, and attendance at FDIC training in areas beyond their normal job functions. These opportunities facilitate a greater awareness of the challenges that

Several of the OIG staff who have participated in leadership training recently:

Dorn Wheatley Walker (center) with Allan Sherman, OIG, and Kay Zielinski, DOA

Janice Baltimore

John Colantoni

different FDIC divisions and offices face as they carry out their responsibilities. The rotation policy, previously a pilot program, was recently opened to all staff within the OIG.

The OIG has continued to support staff participation in a wide variety of diversity activities that have helped to foster awareness within the office. The OIG has also conducted several action planning sessions to address issues raised by the results of the FDIC's Organizational Assessment survey taken last year. Staff have also participated in the Corporation's Diversity Dialogue pilot program, which is intended to enhance individual awareness and understanding of workforce diversity and promote individual learning and change. Other staff participated in planning the Corporation's first Jewish Heritage celebration. The OIG has also supported staff members' attendance at training and other educational sessions to enhance their professional background while promoting diversity. Several OIG offices have continued to initiate varied activities to increase diversity awareness. The recently created Employee Advisory Group has been involved in dialogue between the staff and the Inspector General on many issues including rotational opportunities, promotions, performance evaluations, and telecommuting. It has created a link to the OIGNet Web site and an e-mail address to provide a central point of communication for OIG staff.

Building Relationships

In an effort to continuously improve and add impact to our work, we have sought opportunities to strengthen our relationships both internally within the Corporation and externally with other audit and regulatory groups. Through joint efforts, conferences, and meetings, we have continued to coordinate our work with the FDIC and shared best practices with other groups within the audit community.

As illustrated in our *2001 Audit and Evaluation Plan*, we have structured our audits and evaluations to be more aligned with the Corporation's major program areas – insurance, supervision, receivership management, and other corporate support activities. During this reporting period we joined with the Corporation to examine several major processes within the FDIC. As discussed earlier, at the Corporation's request and in an effort to increase operating efficiencies, the OIG, along with the Office of Internal Control Management, completed a study of the Corporation's administrative services. Further, a number of OIG staff are participating in a significant Division of Supervision (DOS) Process Redesign initiative, which DOS established to improve operating efficiency and prepare for the challenges of a different working environment. In addition, as part of the Division of Finance's speaker series, we joined other corporate officials to discuss FDIC security issues such as Internet and Web security, computer security, and physical security matters. The Office of Investigations (OI), the Division of Resolutions and Receiverships (DRR), and the Financial Crimes Unit finalized an agreement governing coordination among them regarding OIG investigations involving failed institutions, FDIC debtors, and/or the disposition of FDIC assets. The agreement provides for communication between OI, DRR, and the Financial Crimes Unit regarding OI's work in these areas; notification of actions by the Department of Justice; coordination on proposed settlements requiring agency approval; and cases resulting in restitution orders so that DRR can track and collect the restitution payments.

We also participated in the Corporation's Contractor Summit Meeting and agreed to participate on teams with other divisions and offices to design solutions to oversight problems and to evaluate and expand the contract manager courses that could be included in the Contractor Oversight Program.

Coordination with and Assistance to FDIC Management

• Participated in the Division of Supervision (DOS) Process Redesign initiative, which DOS established to improve operating efficiency and prepare for the challenges of a different working environment.

• OIG's Office of Investigations (OI) has continued to provide training during Commissioned Examiner Seminars based on OIG experience in investigating fraud and obstruction of bank examinations at the failed First National Bank of Keystone.

• OI has coordinated closely with DOS and the Legal Division regarding fraud investigations at both open and failed institutions to facilitate implementation of 8E orders to bar those convicted from employment in the banking industry.

• OI, the Division of Resolutions and Receiverships, and the Financial Crimes Unit finalized an agreement governing coordination among them regarding OIG investigations involving failed institutions, FDIC debtors, and/or the disposition of FDIC assets.

• Conducted a study of administrative services jointly with the Office of Internal Control Management (OICM) at the FDIC's request.

• As part of the Division of Finance speaker series, OIG staff contributed to panel discussions with other corporate officials regarding FDIC security issues, with specific focus on Internet and Web security, computer security, and physical security matters. We also shared the results of our review of FDIC Employee Internet Use and discussed uses and benefits of the Internet at the FDIC as well as the associated risks.

• Participated in a Division of Compliance and Consumer Affairs (DCA) conference. The Inspector General explained the OIG's role and communicated to DCA staff how the OIG could work in partnership with them to achieve their strategic goals.

• OIG staff briefed the Division of Information Resources Management's Career Opportunity Program participants on the OIG and its mission.

• Initiated annual review of the Corporation's Internal Control and Risk Management Program, which will address whether the evaluation and reporting process supporting the 2000 FDIC Statement on Internal Accounting and Administrative Controls is consistent with the requirements of the Federal Managers' Financial Integrity Act.

• Participated in a Contractor Summit Meeting regarding Contract Oversight Best Practices sponsored by OICM.

• Participated in an OICM-sponsored initiative to evaluate project manager courses that could be included in the Contractor Oversight Program.

• As a result of an evaluation report issued in September 1999, the Dallas Regional Office's new copier program will save the FDIC an estimated $400,000 annually.

• Along with GAO, provided DIRM with comments on a new draft Public Key Infrastructure certificate policy.

• Made a presentation to DOF accounting staff regarding workpaper preparation, including the benefits of automated workpapers.

• At DIRM's request, the OIG performed an independent security review of the FDIC's mainframe in time for DIRM to meet federally imposed deadlines.

OIG Internal Activities

• Completed the third external customer survey regarding satisfaction with OIG operations and processes.

• Completed an external peer review of the Department of Justice OIG's Office of Audits.

• Completed a quality assurance review of the OIG's Office of Management and Policy.

• Initiated quality assurance reviews of the Office of Audits and Office of Congressional Relations and Evaluations.

• Issued the *2001 Audit and Evaluation Plan*, which aligns our planned review efforts to the Corporation's strategic areas: Insurance, Supervision, Receivership Management, and Corporate Support. To better assist the Corporation in achieving its mission, we met with corporate management for input and suggestions for the plan.

• The Inspector General participated as a panelist at the Annual Internal Auditing in Government Conference sponsored by the Institute of Internal Auditors regarding Maximizing the Power of Information Technology and Human Capital.

• The Inspector General spoke on Leadership in Transition at the annual Federal Leadership conference sponsored by the Association of Government Accountants.

• Revised management control plans for the OIG's accountability units under the Corporation's Internal Control and Risk Management Program.

• Provided an action plan summary to the Chairman based on OIG staff's input through the FDIC's Organizational Assessment survey.

• Issued the OIG's *2000 Performance Report*.

• Briefed new Board Director and Chairman of the Audit Committee, John M. Reich, on the FDIC OIG's role and mission.

• Continued participation in interagency Government Performance and Results Act Interest Groups sponsored by the President's Council on Integrity and Efficiency and the U.S. Office of Personnel Management to share ideas and best practices on Results Act implementation.

• Participated in the Automated Working Paper Initiative Task Force. This task force has researched different OIGs' approaches to automating the working paper process in an effort to improve efficiency.

• Submitted FY 2002 Budget to House and Senate Appropriations Committees.

• Participated in an annual conference of the Association of Directors of Investigation regarding Addressing the Challenges of the 21st Century.

• Further developed a plan for automating our working papers process flow in Office of Audits. Software selected will help the OIG conform to the Government Paperwork Elimination Act of 1998.

• OIG Counsel's office litigated 11 matters. Such matters involved the Equal Employment Opportunity statute, the Right to Financial Privacy Act, the *qui tam* provisions of the False Claims Act, and civil and criminal cases in which OIG documents were sought in discovery.

• OIG Counsel's office provided advice and counsel, including written opinions, on a number of issues such as electronic signatures, computer security and intrusions into government computer systems, payroll and overtime matters, the Bank Secrecy Act, contracting issues, and ethics-related matters.

Table 1: Significant OIG Achievements October 1, 2000 - March 31, 2001

Audit Reports Issued	21
Audit-Related Memorandums Issued *	16
Evaluation Reports Issued	3
Evaluation-Related Correspondence Issued *	5
Questioned Costs and Funds Put to Better Use from Audit and Evaluation Reports	$8 million
Investigations Opened	16
Investigations Closed	42
OIG Subpoenas Issued	24
Convictions	14
Fines, Restitution, and Monetary Recoveries	$67 million
Hotline Allegations Referred	11
Allegations Substantiated	22
Allegations Closed	6
Proposed or Existing Regulations and Legislation Reviewed	5
Proposed FDIC Policies Reviewed	30
Responses to Requests and Appeals Under the Freedom of Information Act and Privacy Act	13

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

Table 2: Nonmonetary Recommendations

October 1998 - March 1999	133
April 1999 - September 1999	66
October 1999 - March 2000	68
April 2000 - September 2000	74
October 2000 - March 2001	90

Table 3: OIG Review of Proposed or Existing Legislation and Regulations (October 1, 2000 - March 31, 2001)
OIG Counsel reviewed and commented upon the following legislation and regulations:
Legislation/Regulations
The Counsel's office carried out its responsibilities under the Inspector General Act to review proposed or existing legislation and regulations. Among the items we reviewed and provided comments on included draft Office of Management and Budget Guidance on Implementing the Government Information Security Reform Act contained in the 2001 Defense Authorization Act (Public Law 106-398). In the preceding reporting period we had provided comments on what was then the proposed legislation. During this reporting period, the FDIC issued final regulations implementing the Program Fraud Civil Remedies Act, an administrative system for assessing monetary penalties for liability resulting from fraud and false statements against the FDIC. We had worked closely with the Corporation's Legal Division to develop these regulations, which will now provide an additional tool for the Corporation to use in addressing issues of fraud. We worked with other OIGs to coordinate comments on behalf of the Inspector General community and develop a consensus position on the sensitive area of Inspector General access to confidential Alternative Dispute Resolution (ADR) information. The government-wide ADR Council had issued a call for comments on its paper dealing with confidentiality of ADR information. The comments we submitted from the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency attempted to balance the need for preserving the confidential nature of certain ADR materials against the Inspector Generals' statutory right of access to agency information necessary to perform the duties of the office. The ADR Council accepted some (although not all) of the recommendations from the Inspectors General. Counsel's office reviewed various regulatory and other proposals, both internal to the FDIC and those with external application, and commented upon 12 CFR Part 325 – Adjustments to the Risk-Based Capital Ratio Calculations (Securities Borrowing Transactions). Counsel's office also reviewed and provided comments on the proposed model Memorandum of Understanding between the FDIC and National Association of Insurance Commissioners, pursuant to the Gramm-Leach-Bliley Act. This agreement will address the sharing of confidential information between and among financial institutions, insurance commissioners, and financial regulators.

Figure 1: Products Issued and Investigations Closed

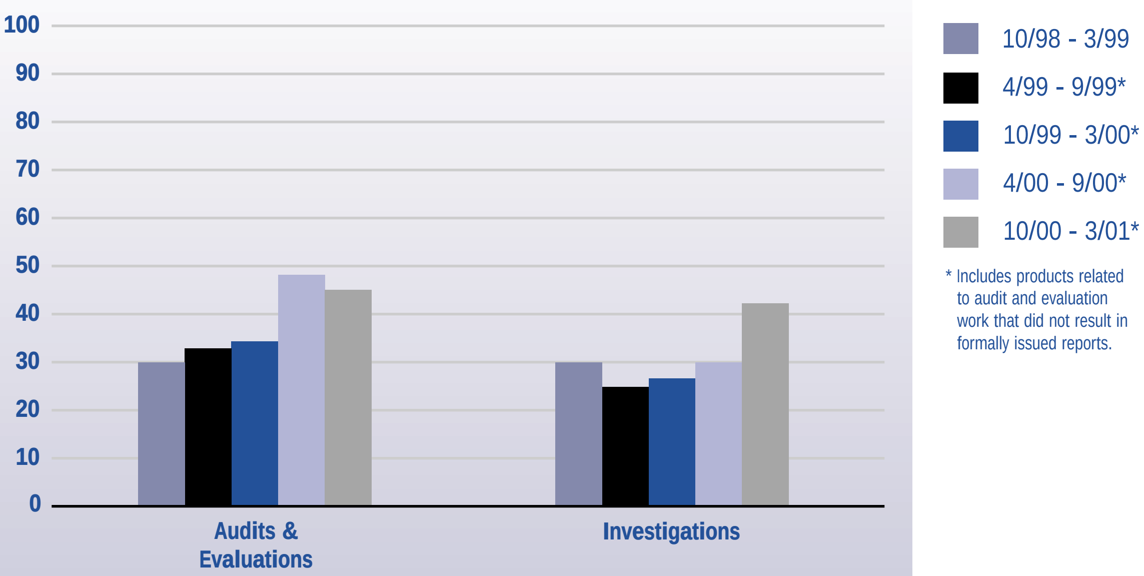


Figure 2: Questioned Costs/Funds Put to Better Use (in millions)

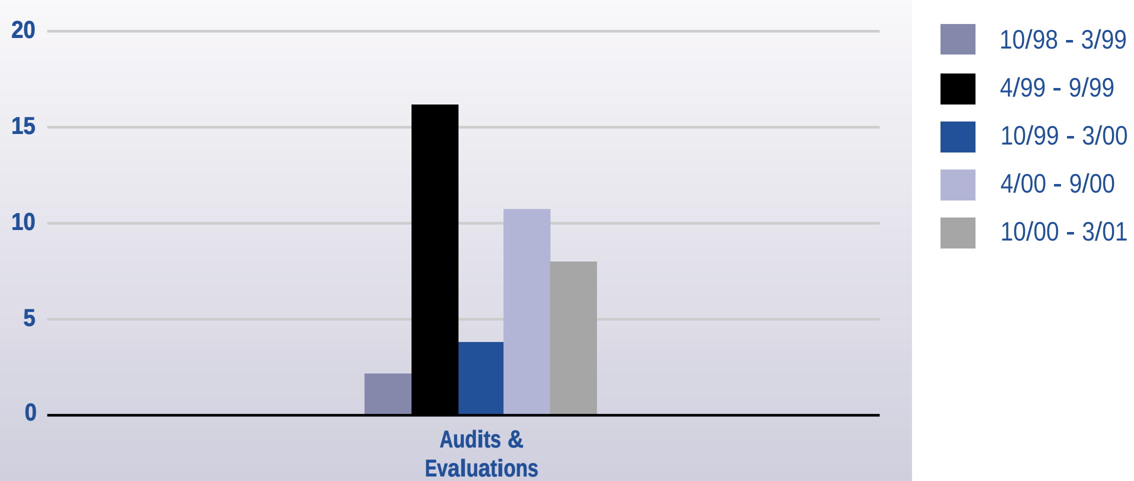
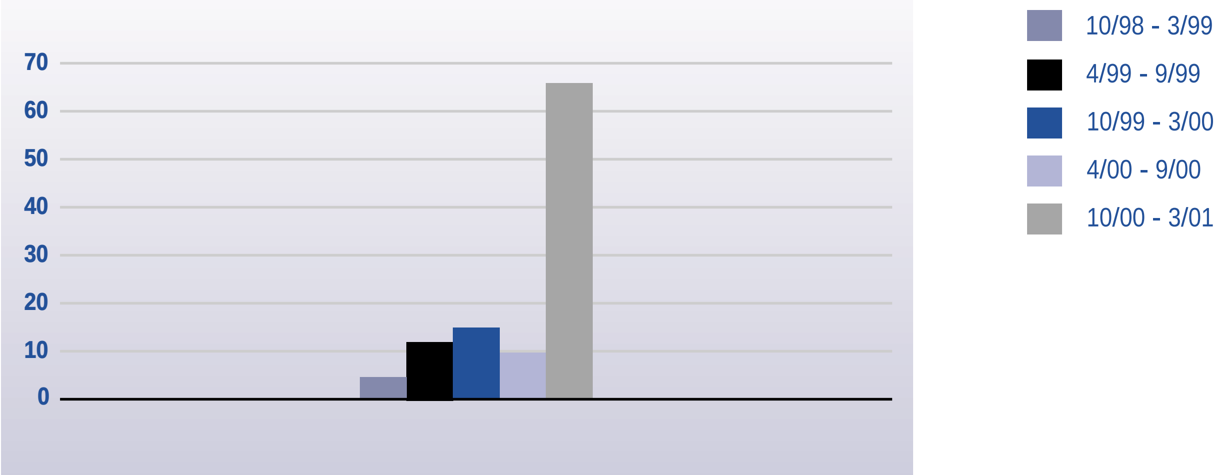


Figure 3: Fines, Restitution, and Monetary Recoveries Resulting from OIG Investigations (in millions)




Clients
Advise
Responding
Impact
Relevance
Goals

OIG 2000 Performance Report

Introduction

Nature and Purpose of Annual Performance Report

The Office of Inspector General has developed its own independent Strategic Plan and 2000 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 2000 Annual Performance Plan focusing on the most meaningful annual measures related to achieving our strategic goals and objectives.

Relationship to the FDIC's Annual Program Performance Report

The FDIC plans to issue its 2000 Program Performance Report to the Congress during the second quarter of 2001, presenting its performance against 26 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 2000 Program Performance Report references our annual report.

Relationship to the OIG's 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 2000 as a separate but integral component of this *Semiannual Report to the Congress*, which covers the period of October 1, 2000 to March 31, 2001. 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.

Statistical Summary of Performance Against Annual Goals

The following table summarizes our collective performance against the annual performance goals for 2000. The table reflects whether the goals were either Met, Substantially Met,[1] or Not Met. (As a frame of reference, page 60 includes a similar table showing our performance against 1999 goals.)

A detail listing showing goal accomplishment for each of the annual performance goals for 2000 is provided beginning on page 57. If the 2000 goal had a similar or "like" goal in 1999, the listing also shows goal accomplishment for 1999.

Strategic Goal Areas	Strategic Objectives Areas	Annual Goal Accomplishment (Number of Goals)			
		Met	Substantially Met[1]	Not Met	Total
Audits, Evaluations, and Investigations Add Value	Client Satisfaction	1		3	4
	Relevance	2	1		3
	Quality	2			2
	Impact/Results	3			3
	Productivity	3	1		4
	Timeliness	1	2	2	5
Professional Advice Assists the Corporation	Advise on Emerging Issues & Vulnerabilities	4			4
OIG Communicates Effectively with Clients/ Stakeholders	Inspector General Role/Activities; Inquiry Response; Interagency Issues	8	2	1	11
Total		24	6	6	36
Percentage		66%	17%	17%	100%

The table above indicates that we met or substantially met 83 percent of our goals. (This compares to a 79 percent level of achievement or substantial achievement for 1999.) 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 our overall assessment of our progress in achieving our strategic goals and objectives.

[1] A quantitative goal was considered "substantially met" if actual performance came within 10 percent of the target level of performance.

Inspector General's Overall Assessment of Performance

Progress Against 1999 Assessment: The OIG 1999 Performance Report included an overall assessment of OIG performance which factored in judgments of the relative quality and weight of the performance measures to evaluate OIG performance and identify areas needing improvement. Progress in 2000 for areas needing improvement are shown below:

1999 Report: The 1999 report noted the 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.

2000 Progress: OIG offices have developed 2001 goals, which are reflected in the OIG's 2001 Performance Plan that was issued in September 2000. This process resulted in new and revised goals that we believe achieve some level of improvement. More extensive review of these and other measures will occur in 2001 when we update the OIG's Strategic Plan.

1999 Report: The 1999 report also noted the need to substantially improve

- our productivity and
- the timeliness of work products.

2000 Progress: Productivity improved when compared to 1999 results. All four productivity goals for 2000 were met or substantially met; this is an improvement when compared to two of four goals that were not met in 1999.

Timeliness statistics remained somewhat constant from last year. Three of five timeliness goals for 2000 were met or substantially met. This is similar to reported results in our 1999 Performance Report. An unmet goal for audit timeliness related only to older projects (those initiated before January 1, 2000). An unmet investigative goal was affected by the increased complexity of certain types of cases involving bank fraud.

2000 New Areas of Concern: After receiving a positive upward trend in client satisfaction ratings for 1999 (as reflected in last year's performance report), recently conducted surveys for 2000 show a leveling off of overall communication ratings and somewhat lower ratings for audit, evaluation, and investigative work. Independent contractors conducting our surveys believe the lowered ratings are due in part to increased expectations of the OIG. Nevertheless, to address client communication concerns, it seems clear we need to focus on increased direct personal contact of OIG executives with the Corporation and better explain our unique reporting relationship and communication processes with the Congress. For our core products and services, we need to continue to address concerns over the value and cost-benefits of certain OIG work and to provide the Corporation with better information on the cost-benefits of our work. We have initiated action to address these areas of concern.

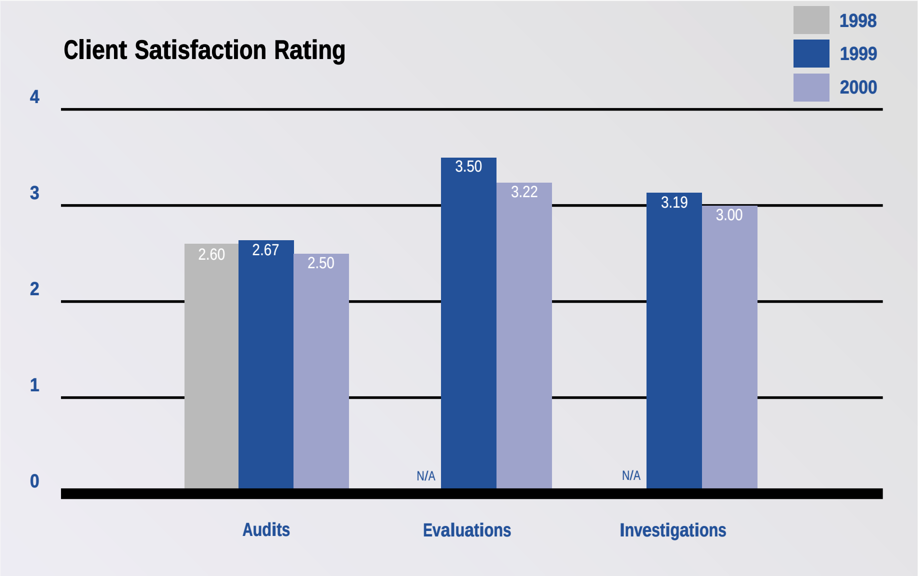
Performance By Strategic Objective Area

STRATEGIC GOALS: Audits, Evaluations, and Investigations Add Value

Client Satisfaction - Meeting Clients' Needs and Expectations.

We met one of our four client satisfaction goals. The client satisfaction goal to establish baseline data for project-by-project client survey ratings for audits and evaluations was met as baseline data was accumulated to set future targets. Average ratings received were 4 or greater on a maximum scale of 5.

As shown in the following table, we did not meet our three goals to increase the 2000 client satisfaction rating for our core mission activities above the 1999 baseline level.



Note: No client satisfaction rating was given for evaluations in 1998. Also, for comparison purposes, ratings for 1998 and 1999 were recomputed using the 2000 numerical equivalent rating scale.

The client ratings, displayed graphically in the table above, reflect the views of FDIC Division and Office Directors as presented in our recent third annual client survey report for 2000, conducted by an independent contractor. The report suggests that lowered ratings for our core mission activities are due in part to communication concerns (See separate Strategic Goal: Communicating Effectively with the Chairman, the Congress, and other Stakeholders). This year we expanded our client feedback to include baseline information on the views of two additional client group tiers: (1) FDIC headquarters executives and managers immediately below the director level and (2) regional office executives and managers knowledgeable of OIG work. Since this was the first year for the additional layers of feedback, specific goals were not established for the new client tiers. Results from all three client groupings contained common themes.

Comments and concerns from the client survey report specific to each core mission area are shown below.

Audits: The goal was not met with the rating decreasing to 2.50 (from 2.67 the previous year). Concerns were expressed about the value and cost-benefit of certain audit products, the intrusiveness of audit work, and whether the OIG possesses the requisite skill sets for certain projects. On a more positive note, reports were generally considered well written and improvements were noted with respect to audit timeliness.

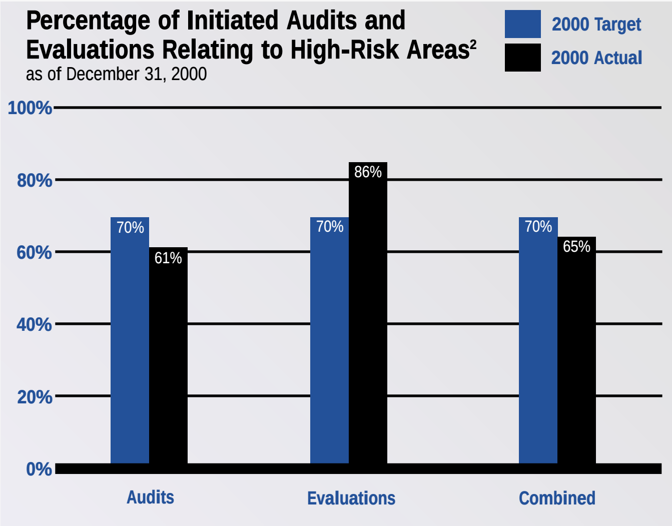
Evaluations: The goal for evaluations was not met with the rating decreasing to 3.22 (from 3.50 the previous year). Some improvements are still needed in better understanding the nature of evaluation work and congressional relations. However, nearly all knowledgeable FDIC executives were generally positive about most aspects of the evaluation work.

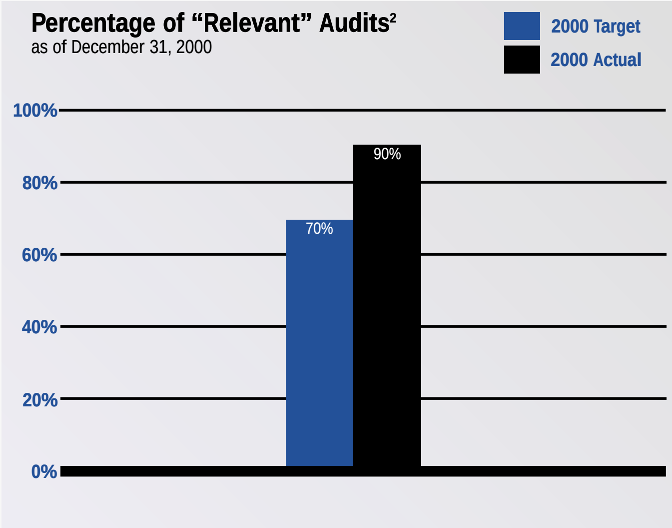
Investigations: The client satisfaction goal for investigations was not met with the rating decreasing to 3.00 (from 3.19 the previous year). Concerns were expressed related to the continued desire for more open communi-cations including being kept apprised of the status of cases. However, FDIC executives indicated more knowledge of investigative work, and their comments were generally more favorable than the previous year. The sharing of information and collaborative attitude of the investigative staff were viewed positively, particularly the memoranda of understanding recently signed with two FDIC divisions.

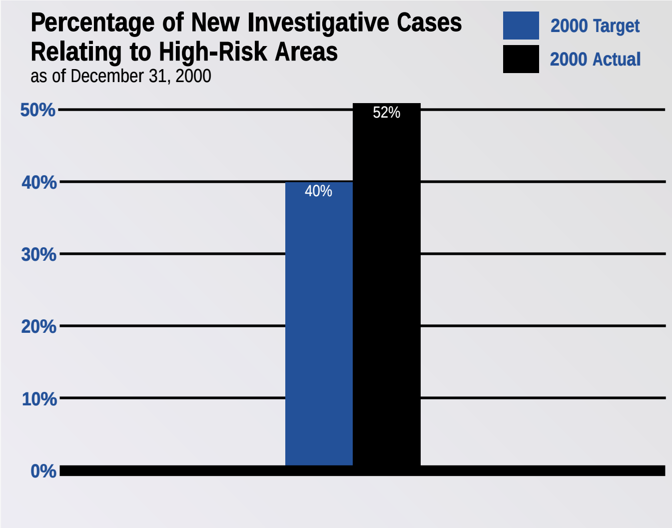
We have initiated actions to address the areas of concern noted in the client survey.

Relevance - Targeting High-Risk Areas and Corporate Strategic Priorities

As shown in the following graphs, all three “relevance” goals were met or substantially met.







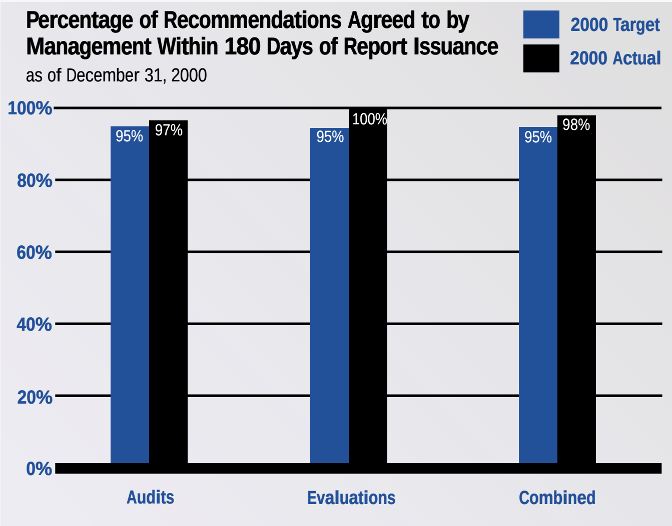
Quality - Complying with Professional Standards

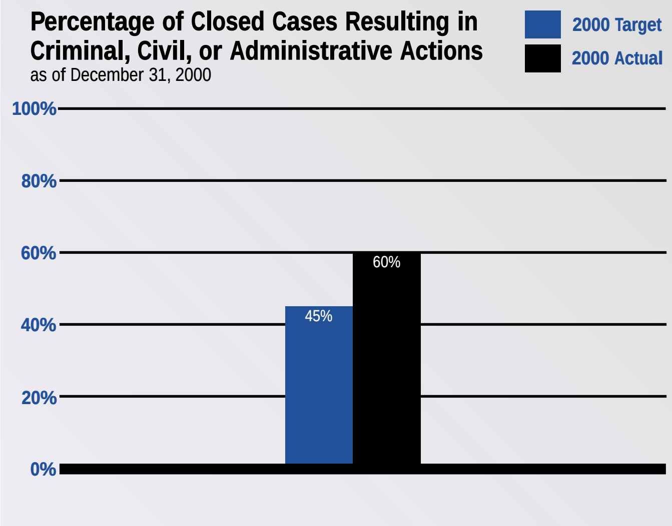
The goal to implement a quality scoring methodology for the Office of Audits and the Office of Congressional Relations and Evaluations and set future targets was met. The Office of Investigations’ goal to conduct operational reviews every 12 months in regional offices was also met.

[2] The determination of high-risk areas is made by the OIG. Audits were considered relevant if they were initiated under the OIG’s Audit Plan and related directly to an FDIC strategic objective or a corporate request.

Impact/Results - Products Achieve Significant Impact or Results

Two impact goals were met, as shown in the following graphs.





A third impact goal related to reviewing and improving the accuracy and meaningfulness of investigative information was also met.

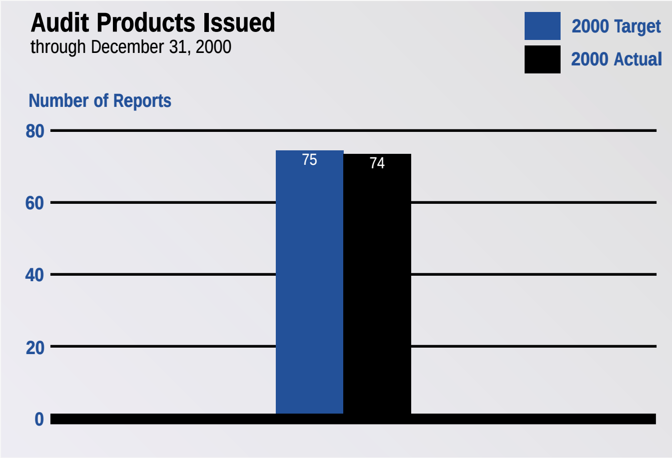
Our 1999 Performance Report noted the inherent difficulty in measuring the impact of audit, evaluation, and investigative work. These challenges include: accurately measuring cost savings from work; quantifying the impact of various OIG prevention activities, including the value of improved internal controls resulting from OIG work; and measuring the deterrent value of OIG investigative work.

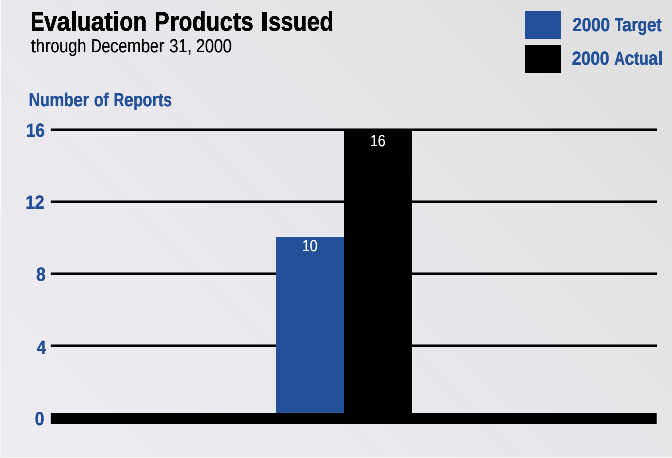
Our 1999 report noted we would explore better measures of OIG impact including research to evaluate the merits of measurement practices and models that exist in other audit and law enforcement organizations. In this vein, an analysis of performance measures used by other OIGs was made available for consideration in updating the OIG's 2001 measures and goals. More extensive analysis will be made as a part of the process to update our Strategic Plan in 2001.

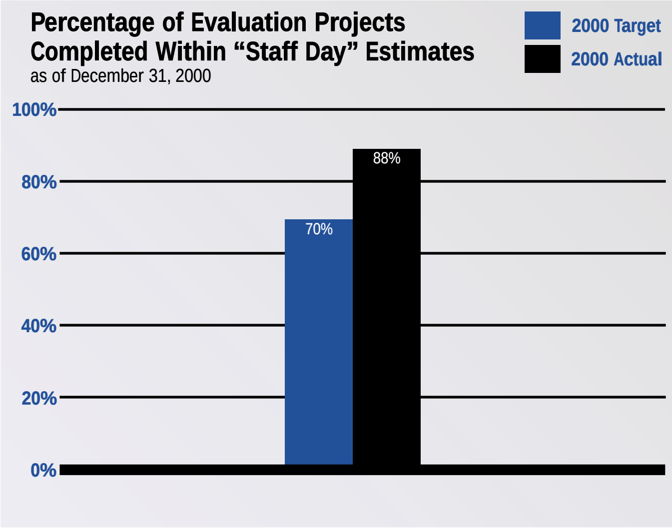
Our 1999 Performance Report also noted that our Semiannual Reports to the Congress present results that have had a significant positive impact on the operations of the FDIC. The semiannual reports present various measures specified in the Inspector General Act including questioned costs and funds put to better use; fines, restitution, and monetary recoveries resulting from OIG investigations; and nonmonetary recommendations. We did not make an analysis of these types of measures.

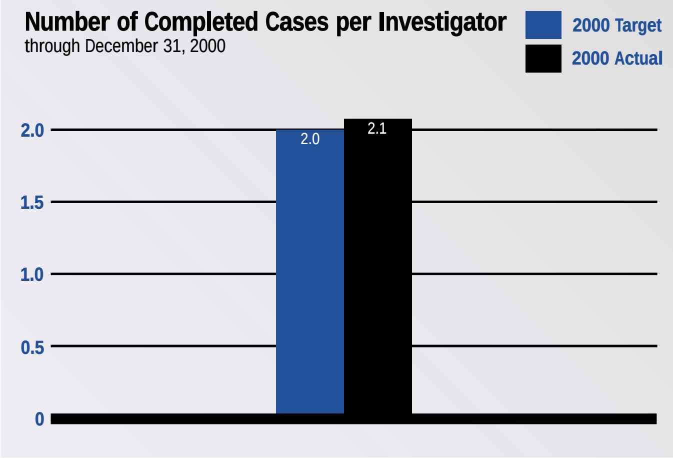
Productivity - Managing Resources to Maximize Productivity

As shown in the following graphs, all four productivity goals were met or substantially met in 2000.



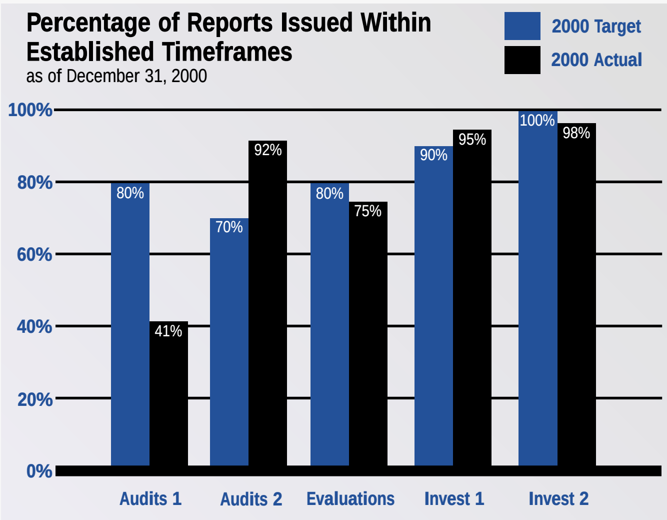


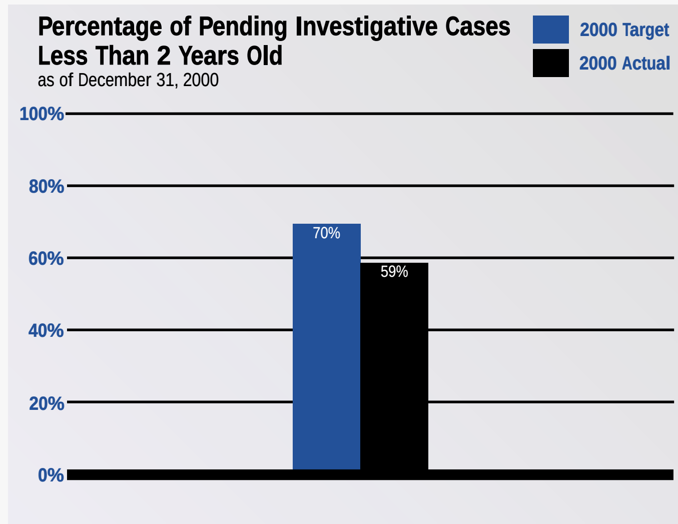




Timeliness - Issuing reports timely.

Three of the five timeliness goals were met or substantially met; two goals were not met.





As shown in the first graph above:

- Audits 1 - We did not meet our goal to issue 80 percent of audit reports within 320 days (for projects initiated before January 1, 2000). Actual performance was 41 percent (16 of 39 reports). Factors contributing to not reaching the goal were that we issued three audit reports resulting from one assignment which took 508 calendar days to complete, and we issued a comprehensive report on Y2K. Also, we issued a report on the Corporate Human Resources Information System. The length of time it takes to complete these types of audits correlates to the time it takes to develop the system, which necessarily requires a lengthier audit period.

- Audits 2 - We met our goal to issue 70 percent of audit reports within 260 days (for projects initiated on or after January 1, 2000). Actual performance was 92 percent (11 of 12 reports).

- Evaluations - We substantially met our goal to issue 80 percent of evaluation reports within agreed-upon time frames with management or 180 days. Actual performance was 75 percent (12 of 16 reports). It should also be noted that the median time frame for issuing the 16 evaluation reports was 143 days.

- Invest 1/Invest 2 - We substantially met the investigative goal that, upon completion of cases, 90 percent of Reports of Investigation are issued within 30 working days and 100 percent of Reports of Investigation are issued within 60 working days. Actual performance was 95 percent for reports issued within 30 days (53 of 56 reports) and 98 percent for reports issued within 60 days (55 of 56 reports).

As shown in the second graph above:

We did not meet our goal that at least 70 percent of pending investigative cases are less than 2 years of age. Actual performance was 59 percent (79 out of 135 cases). Our investigative caseload continues to grow in complexity, creating competing priorities. Ongoing major investigations involving open and closed bank fraud are taking longer to complete due to their complexity and resulting criminal prosecutions. However, we continue to track the progress of the older cases and close them as appropriate.

STRATEGIC GOAL: 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 - Emerging issues with which the OIG was actively involved during the year included: a collaborative effort with the U.S. General Accounting Office (GAO) to sanction the FDIC's digital signature public key infrastructure; testing of GENESYS encryption software; continuous audit activity associated with the 2000 financial statement audit with GAO; privacy review involving sensitive employee information; quick-turnaround review and analysis of the Corporation's Results Act 1999 Performance Report for Senator Fred Thompson; and assisting with the Corporation's initiative to increase the efficiency of its administrative processes.

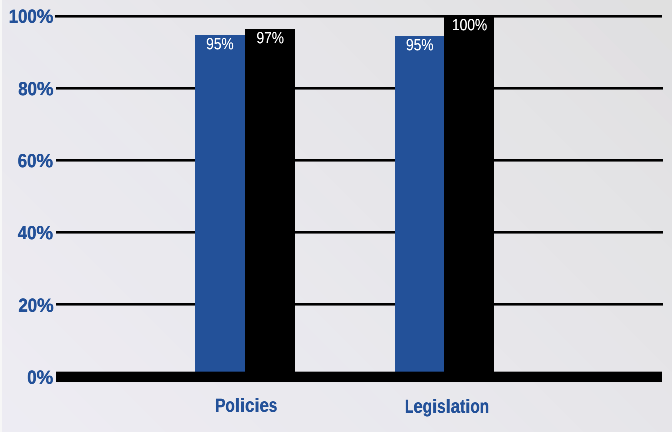
Task Forces - In order to bring the OIG's perspectives into the planning and design of critical corporate processes and activities, we participated in a number of FDIC task forces and related initiatives involving: Asset Loss Reserve project; Public Key Infrastructure Project team; telecommunications; digital copiers; document security; study on use of corporate overtime; emergency action planning for headquarters employees; investigative coordination with division and office management; clarifying investigative role in open bank investigations; providing management with "lessons learned - Keystone;" Office of Investigations preparation of training module for upcoming "Commissioned Examiner Seminar;" coordination on additional debt/restitution investigative cases; diversity and equal employment opportunity activities; Alternative Dispute Resolution Taskforce; "Counterparts" group; and the Chairman's Diversity Advisory Council.

Advising on Vulnerabilities and Risks

Regulatory and Legislative Proposals and Corporate Policies - As shown in the graph below, we met our goal for reviewing and analyzing regulatory or legislative proposals and proposed corporate policies and providing advisory comments to management.

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 the Chief Financial Officers Act reporting process by providing the Inspector General's "Comfort Letter" to the Chairman.

Percentage of Policies Reviewed and Legislative Proposals Analyzed Within Requested Timeframes
as of December 31, 2000



STRATEGIC GOAL: Communicating Effectively with the Chairman, the Congress, and Other Stakeholders

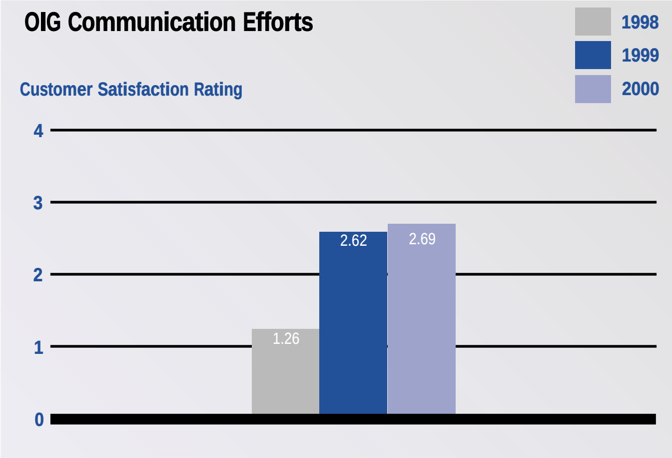
We met or substantially met 10 of the 11 goals relating to informing clients of the OIG's role, mission, and activities; responding to client requests and inquiries; and working with other agencies on crosscutting issues.

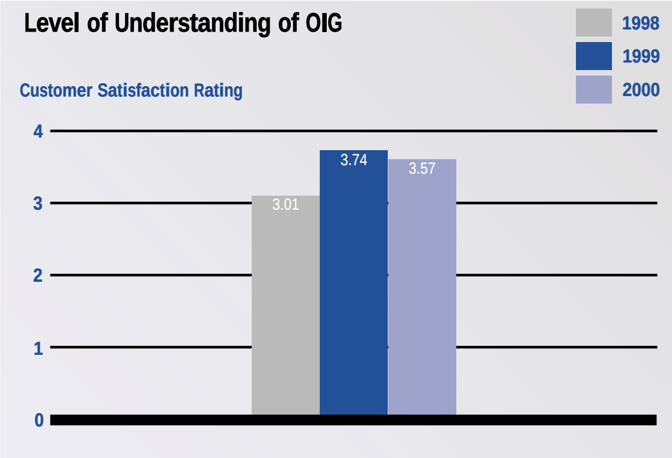
Ensuring Clients are Informed of OIG Role, Mission, Activities, Issues, and Deficiencies

Client Satisfaction - As shown in the first table below, the goal to increase the level of client satisfaction with OIG communication efforts above the 1999 baseline rating was met. (Note: For comparison purposes, ratings for 1998 and 1999 were recomputed using the 2000 numerical equivalent rating scale.)

Although the communication goal was met, the ratings have leveled off and are not as high as desired. Survey results suggest the need for more direct personal interaction of OIG executives with the Corporation (particularly those OIG executives in charge of core mission functions, reporting directly to the Inspector General). Also, the OIG's unique reporting relationship and communication processes with the Congress need to be better understood by the Corporation.

Providing Information to Clients - Three goals related to providing the following reports and information to clients were met: *Semiannual Report to the Congress* and *Annual Performance Plan* distributed to stakeholders; *Audit Plan* briefings to management; and Weekly Highlights reports made to the Chairman.

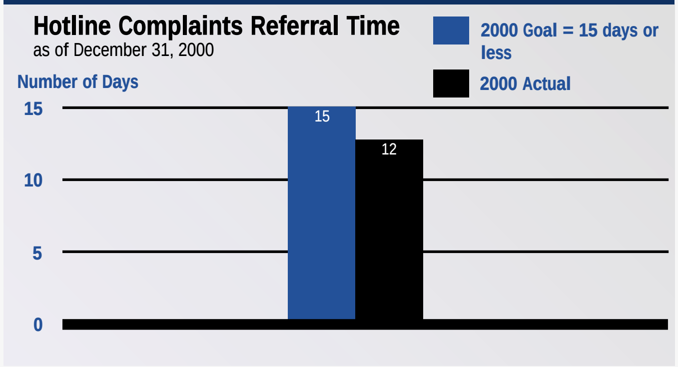




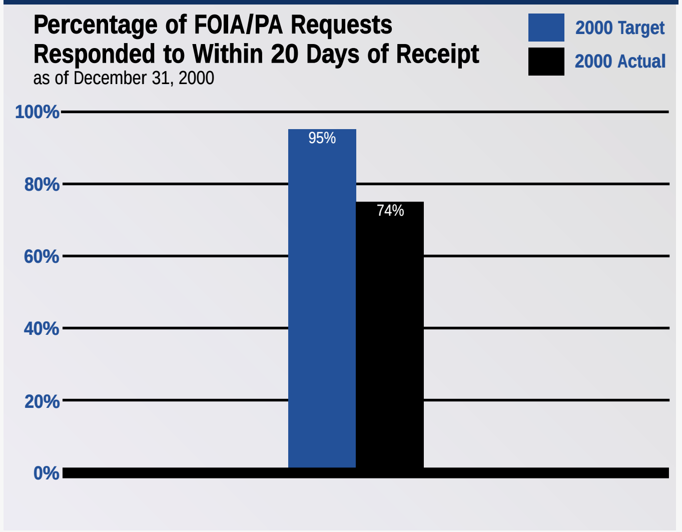
Responding to Congressional, Employee, and Public Inquiries and Requests

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. The target for timely response to FOIA/PA requests was not met due to an unexpected volume of work for several requests; tracking will be enhanced to identify requests for which extensions are needed.

Met



Not Met



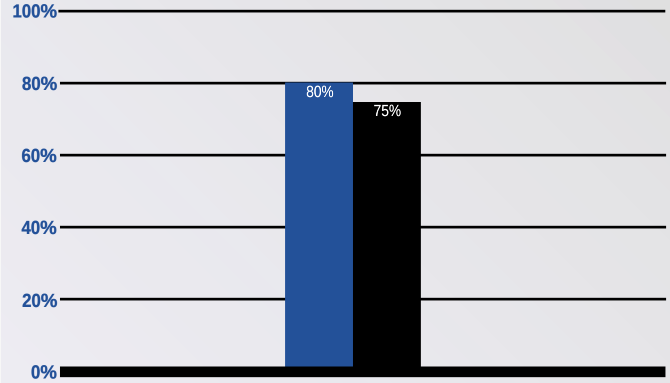
Chairman and Congressional Requests - As shown in the following graph, the OIG substantially met its goal to timely acknowledge and track the resolution of all requests from the Chairman's Office or from the Congress. The median response time for acknowledgment was 7 days.

Access to Reports - Our goal to provide access to audit reports, evaluation reports, and press releases was substantially met. All of our 2000 audit reports and press releases were provided to the FDIC Public Information Center and the OIG Webmaster in a timely manner under our OIG policy. However, due to an oversight, some evaluation reports were not released to the Public Information Center within the timeframes required by policy.

Working with PCIE and Other Government Agencies to Address Crosscutting Issues

We met our goals to actively support the activities of the President's Council on Integrity and Efficiency (PCIE), to share information with the FDIC and other agencies, and to complete an external peer review of the Department of Justice OIG. The FDIC Inspector General continues to serve as PCIE Vice Chair and, in this capacity, provides leadership on a wide variety of interagency activities. Significant OIG activities in 2000 in support of these goals include: the Inspector General is participating on the committee to update Government Auditing Standards; PCIE Annual Report to the President; PCIE/ECIE Strategic Plan development; enhancing the usefulness of IGNet to its members and the public; contributing to the special edition of the PCIE *Journal of Public Inquiry*; providing comments to the PCIE on draft legislation; providing staff support to the Federal Law Enforcement Training Center to support the government's OIG training program; participating in various OIG groups including Council of Counsels to the Inspectors General, PCIE inspection and evaluation roundtable, Directors of Investigation, and GPRA coordinators roundtable; and making presentations at a variety of training conferences attended by auditing, law enforcement, banking, and regulatory officials.

Percentage of Chairman and Congressional Requests Acknowledged Within 10 Days of Receipt as of December 31, 2000



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 met or substantially met 24 of the 30 goals (80 percent) in this area. These include goals related to updating and completing training systems and studies, developing an employee feedback assessment process, implementing learning organization action plans, completing internal quality assurance reviews, conducting risk assessments and internal control reviews, providing information systems and computer services to OIG staff, establishing an employee advisory group, implementing operating principles for building trust, and providing legal advice and other administrative and support services.

Five resource management goals were not met although significant progress has been made on most of them by year-end.

- *Develop New Quality Assurance Approach* - A general conceptual framework has been established for future quality assurance reviews (QARs) whereby the OIG's Office of Quality Assurance and Oversight will provide policy, guidance, and oversight for QARs with operating offices actually conducting the reviews. This new approach will be further developed in 2001.

- *Develop OIG Information Systems* - Two information systems were on the priorities list to be completed in 2000. The Counsel Workflow System was completed in 2000, but the Training Management System will not be completed until 2001 because of a later-than-planned start date.

- *Develop Overall Communications Strategy* - An internal reporting communication policy for audits was drafted and is currently being used. Work will continue on an office-wide policy in 2001.

- *Develop Strategy for Recruiting Diverse OIG Workforce* - A draft plan for recruiting a diverse OIG workforce has been prepared and is under review.

- *Develop and Communicate OIG Policies* - Several audit, investigative, and quality assurance policies planned for issuance in 2000 were delayed and were rescheduled for completion in 2001.

Sufficient information is not yet available to determine whether the goal to increase the level of internal customer satisfaction with OIG legal services has been met.

Detail Listing of Annual Performance Goal Accomplishment

2000 Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area)	Goal Accomplishment 2000	Goal Accomplishment 1999
Audits, Evaluations, and Investigations Add Value		
Client Satisfaction		
Increase the level of client satisfaction of audit work (to 2.8) above the 1999 baseline level established by a general OIG client survey and set future targets based on a general follow-up survey for 2000.	Not met	Met
Increase the level of client satisfaction of evaluation work above the 1999 baseline level established by a general OIG client survey and set future targets based on a general follow-up survey for 2000.	Not met	Met
Establish a 2000 baseline of client satisfaction and set future targets based on project-by-project client surveys (including relevance, timeliness, and impact) of individual audit and evaluation reports issued in 2000.	Met	N/A
Maintain the level of client satisfaction of investigative work at the 1999 baseline level but increase the number of executives having knowledge or understanding of the Office of Investigations by 33 percent.	Not met	Met
Relevance		
70 percent of initiated audits and evaluations will relate to corporate activities that the OIG determines to be areas of high risk or vulnerability (including potential for fraud or abuse), FDIC management request, or congressional inquiry.	Substantially met	Met
At least 70 percent of the audits initiated under the OIG audit plan will relate directly to the FDIC's strategic objectives or corporate requests.	Met	Not Met
40 percent of new cases will be related to criminal restitution and civil judgment, bankruptcy, or suspected fraud in open banks.	Met	Met
Quality		
Implement a post-issuance quality scoring methodology for audit and evaluation reports and set future targets.	Met	Substantially met
Conduct operational reviews every 12 months in each regional office and discuss corrective issues identified with Office of Investigations field management.	Met	Substantially met
Impact/Results		
The OIG and FDIC management agree on an appropriate management decision on 95 percent of audit and evaluation recommendations within 180 days of report issuance.	Met	Met
45 percent of the cases closed will result in either Reports of Investigation to management, criminal convictions, civil actions, or a combination of these elements.	Met	Substantially met

Detail Listing of Annual Performance Goal Accomplishment (continued)

2000 Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area)	Goal Accomplishment 2000	Goal Accomplishment 1999
Audits, Evaluations, and Investigations Add Value		
Impact/Results (continued)		
Review and improve the accuracy and meaningfulness of investigative information to establish trends and set future targets.	Met	Not met
Productivity		
Issue memoranda or reports on the results of 75 audits.	Substantially met	Not met
Issue 10 reports or other reporting vehicles communicating the results of evaluations.	Met	Not met
Complete 70 percent of evaluation projects within "staff day" estimates.	Met	N/A
The number of cases completed per investigator will be greater than two.	Met	Met
Timeliness		
For projects initiated before January 1, 2000, issue 80 percent of audit reports within 320 calendar days.	Not met	Substantially met
For projects initiated on or after January 1, 2000, issue 70 percent of audit reports within 260 calendar days.	Met	N/A
Issue 80 percent of evaluation reports within time frames agreed upon by the Office of Congressional Relations and Evaluations and FDIC management or issue report within 180 calendar days if no time frame was agreed upon.	Substantially met	Not Met
At least 70 percent of pending cases will be less than 2 years of age.	Not met	Met
Issue 90 percent of Reports of Investigation within 30 days, and 100 percent of Reports of Investigation within 60 working days, after completion of the case.	Substantially met	Substantially met
Professional Advice Assists Corporation		
Advise on Emerging Issues and Vulnerabilities		
Conduct "front-end" assessments of emerging issues, new systems, or other matters affecting the Corporation within time frames that are responsive to corporate needs.	Met	Met
Participate in FDIC task forces developing new programs/processes if OIG participation is appropriate and can add value.	Met	Met
Review proposed corporate internal policies and respond to the Corporation and analyze regulatory/legislative proposals within requested time frames 95 percent of the time.	Met	Met
Report within established time frames on the results of OIG's review of the Corporation's annual Federal Managers' Financial Integrity Act internal control review process, a process required for FDIC by the Chief Financial Officers Act of 1990.	Met	Met
Communicate Effectively with Clients/Stakeholders		
Inspector General Role/Activities; Inquiry Response; Interagency Issues		
Provide OIG Semiannual Reports, Annual Performance Plan, Annual Performance Report, and other information to and interact with the Congress and corporate officials.	Met	Met
Brief FDIC management on Annual Audit Plan.	Met	Met

Detail Listing of Annual Performance Goal Accomplishment (continued)

2000 Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area)	Goal Accomplishment 2000	Goal Accomplishment 1999
Communicate Effectively with Clients/Stakeholders		
Inspector General Role/Activities; Inquiry Response; Interagency Issues (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	Met
Increase the level of client satisfaction of OIG communication efforts above the 1999 baseline level established by a general OIG client survey and establish future targets based on a general follow-up survey for 2000.	Met	Met
Refer OIG Hotline complaints within an average of 15 working days of receipt to appropriate OIG or corporate officials for review and track their resolution.	Met	Met
Respond to 95 percent of FOIA/PA requests within 15 working days of receipt unless deadline is extended in accordance with law, applicable regulation, or OIG policy.	Not met	Substantially met
Acknowledge 80 percent of Chairman's Office or congressional requests within 10 business days of receipt and track their resolution.	Substantially met	Not met
Provide audit reports, evaluation reports, and press releases to the FDIC Public Information Center and the OIG Webmaster in accordance with policy.	Substantially met	Substantially met
Continue to actively participate in and support the activities of the President's Council on Integrity and Efficiency.	Met	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	Met
Complete external peer review of the Department of Justice (DOJ) OIG within date agreed to with DOJ OIG and within 90 days from start of fieldwork.	Met	N/A

Statistical Summary of Previous Year's Performance – 1999 Annual Performance Goals

Strategic Goal Areas	Strategic Objectives Areas	Annual Goal Accomplishment (Number of Goals)			
		Met	Substantially Met*	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/Stakeholders	Inspector General Role/Activities, Inquiry Response, Interagency Issues	7	2	1	10
Total		**21**	**9**	**8**	**38**
Percentage		**55%**	**24%**	**21%**	**100%**

* A quantitative goal was considered "substantially met" if actual performance came within 10 percent of the target level of performance.

Reporting Terms and Requirements

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Reader's Guide to Inspector General Act Reporting Terms

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 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 Inspector General 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 Inspector General 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 Inspector General 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 judgements 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.

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

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

This table shows the corrective actions management has agreed to implement but has not completed, along with associated monetary amounts. In some cases, these corrective actions are different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on information supplied by the FDIC's Office of Internal Control Management (OICM). These 56 recommendations from 19 reports involve monetary amounts of over $19.7 million. OICM has categorized the status of these recommendations as follows:

Management Action in Process: (18 recommendations from 7 reports, $1.6 million)

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.

Legal Analysis: (18 recommendations from 9 reports, $7.1 million)

The Legal Division has been provided all necessary documentation to perform a detailed review for legal purposes. The Legal Division will be the final determinant for items so categorized.

Litigation: (20 recommendations from 3 reports, $11 million)

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

Report Number, Title & Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
98-090 Credit Enhancement Reserve Fund for Securitization Transaction 1993-03 November 24, 1998	2, 4	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.
	10	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.
99-027 Limited Scope Audit of Credit Enhancement Reserve Funds for Securitization Transactions 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.
00-015 Corporation's Procurement and Travel Credit Card Programs May 24, 2000	2	Review the current policy regarding the cancellation and reinstatement of credit cards to determine whether it is having its intended effect, and revise the policy accordingly.
00-021 Audit of Payments to CIBER, Inc. June 2, 2000	1, 2	Disallow $587,621 for unallowable charges and reiterate to CIBER that it must adhere to provisions of the General Services Administration (GSA) contract and FDIC delivery orders.
	10	Reiterate to CIBER that it is responsible for advising the Contracting Officer of proposed changes in key personnel, that exemptions from sales taxes should be obtained, and supervisory review and approval of time sheets is a necessary internal control.
	12	Ensure that the FDIC operates within the scope of the GSA contract requirements when issuing delivery orders.

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

Report Number, Title & Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action in Process (continued)		
00-026 Division of Compliance and Consumer Affairs' Community Reinvestment Act Examination Process July 7, 2000	1	Improve guidance provided to examiners for consistent examination procedures and reports.
	3	Improve the policy with respect to community contacts.
	4	Improve the policy with respect to the scope of small business/farm reviews.
	5	Improve the guidelines for quality assurance reviews of performance evaluation reports.
	6	Improve the documentation for quality assurance reviews of performance evaluation reports.
	7	Improve the minimum work paper standards.
00-036 Payments to COMSO, Inc. August 29, 2000	1	Disallow questioned costs of $260,259 for unallowable charges.
00-040 FDIC Health Benefits Program Administered by Aetna U.S. Healthcare September 6, 2000	3	Disallow $183,100 for overpaid claims.
	4	Disallow $197,104 for overpaid claims not collected as contractually required.
Legal Analysis		
00-024 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-03* July 6, 2000	1,2	Disallow $230,678 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.
00-028 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-09* July 21, 2000	1,2	Disallow $1,350,837 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.

* Completion of management action scheduled for June 30, 2001.

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

Report Number, Title & Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Legal Analysis (continued)		
00-029 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-15* July 21, 2000	1, 2	Disallow $401,684 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.
00-031 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-07* August 3, 2000	1, 2	Disallow $665,025 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.
00-032 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1992-01* July 6, 2000	1, 2	Disallow $559,462 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.
00-034 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-01 August 21, 2000	1, 2	Disallow $1,443,836 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.
00-035 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-12* August 21, 2000	1, 2	Disallow $878,574 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.
00-041 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1992-04* September 8, 2000	1, 2	Disallow $837,696 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.
00-044 Review of the Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1992-03* September 20, 2000	1, 2	Disallow $765,827 in questioned costs for unsupported and unallowable costs related to liquidation expenses, principal and interest advances, and escrow disbursements.

* Completion of management action scheduled for June 30, 2001.

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

Report Number, Title & Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
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.
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.2: Audit Reports Issued by Subject Area

Audit Report: Number & Date	Audit Report: Title	Questioned Costs: Total	Questioned Costs: Unsupported	Funds Put to Better Use
Supervision (Safety and Soundness)				
01-010 March 23, 2001	FDIC's Timeliness of Processing Applications for Deposit Insurance			
01-013 March 30, 2001	Examination Assessment of Bank Secrecy Act Compliance			
01-016 March 30, 2001	DOS's Use of Expanded and Impact Examination Procedures in the Risk-Focused Examination Process			
Receivership Management				
00-047 October 19, 2000	American Pension Management's Administration of Employee Benefit Plans for Failed Financial Institutions	$1,724,213	$1,722,213	
00-046 October 31, 2000	Tax Returns for Northeast Service Center Dissolved Subsidiaries			
00-050 December 18, 2000	Real Estate Owned by the Federal Deposit Insurance Corporation and Its Receivership and Subsidiaries			$55,200 *
00-051 December 28, 2000	Receivership Liability System - Staffing and Training			
01-008 March 8, 2001	Claims Made to the Credit Enhancement Reserve Funds for Securitization Transactions 1992-03 and 1992-04	$441,764	$40,455	
01-009 March 8, 2001	Securitization Transactions Serviced by PNC Mortgage: Audit of Duplicate Principal and Interest Advances	$96,359		
Corporate Support - Information Security and Infrastructure				
00-049 December 6, 2000	FDIC's Computer Virus Protection Program			
01-007 March 14, 2001	FDIC's Information Technology Risk Management Program			$2,200,000

* Report 00-050 identified $1.9 million in funds to be put to better use. Based on updated information, we revised the amount to $55,200.

Table I.2: Audit Reports Issued by Subject Area

Audit Report: Number & Date	Audit Report: Title	Questioned Costs: Total	Questioned Costs: Unsupported	Funds Put to Better Use
Corporate Support - Other Activities				
00-048 November 14, 2000	QSS Group's Billings to the FDIC for Information Technology Services	$2,305,507		
01-001 January 10, 2001	The Ratcliff Architects' Professional Fee Billings Under Contract 97-00384-S-JW	$76,009	$8,737	
01-002 January 11, 2001	Billings for Professional Services Provided by ACS Government Solutions Group	$1,064,364		
01-003 January 24, 2001	Implementation of Release I of the Corporate Human Resources Information System			
01-004 February 1, 2001	Contractor Background Investigation Process			
01-005 February 6, 2001	Use of Overtime Within the FDIC			
01-006 February 12, 2001	FDIC's Application Maintenance Budgets			
01-012 March 28, 2001	Controls over the FDIC's Laptop Computer Inventory			
01-014 March 29, 2001	Semiannual Report of FDIC Board Members' Travel Voucher Reviews - September 2000 to February 2001			
01-015 March 30, 2001	FDIC's Compliance With 26 CFR 1.6050 M-1			
TOTALS FOR THE PERIOD		**$5,708,216**	**$1,771,405**	**$2,255,200**

Table I.3: Audit Reports Issued with Questioned Costs

	Number	Questioned Costs: Total	Questioned Costs: 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.	6	$5,708,216	$1,771,405
Subtotals of A & B	6	$5,708,216	$1,771,405
C. For which a management decision was made during the reporting period.	6	$5,708,216	$1,771,405
(i) dollar value of disallowed costs.	6	$5,708,216	$1,771,405
(ii) dollar value of costs not disallowed.	0	0	0
D. For which no management decision has been made by the end of the reporting period.	0	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0	0

Table 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.	2	$2,255,200 *
Subtotals of A & B	2	$2,255,200
C. For which a management decision was made during the reporting period.	2	$2,255,200
(i) dollar value of recommendations that were agreed to by management.	2	$2,255,200
- based on proposed management action.	2	$2,255,200
- 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

* Report 01-007 identified funds to be put to better use of $2.2 million over 3 years. The yearly benefit amounts to $733,333 for the first and second year, and $733,334 for the third year. Report 00-050 identified $1.9 million in funds to be put to better use. Based on updated information, we revised the amount to $55,200.

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:

Products Issued by the Office of Congressional Relations and Evaluations

Product Number and Date	Title
Evaluation Reports	
EVAL-00-006 October 11, 2000	FDIC's Information Handling Practices for Sensitive Employee Data
EVAL-00-007 December 29, 2000	MCI Voice and Video Contract - Contract Monitoring
EVAL-01-001 February 21, 2001	Processes Used to Verify and Validate Government Performance and Results Act Performance Data
Evaluation Memoranda	
EM-00-003 October 24, 2000	Observations on FDIC's GPRA Performance Report Verification and Validation Descriptions
EM-00-004 November 8, 2000	Networked Digital Copiers
EM-01-001 March 1, 2001	Study of Administrative Services - Training and Personnel
EM-01-002 March 29, 2001	Allegation of Overpayment of Gross-up Taxes
Congressional Letters	
CL-01-001 January 23, 2001	Letter to Congressman Walter B. Jones on Behalf of Shirley L. Mays

Abbreviations and Acronyms

ABA ....American Bankers Association
ACS ....ACS Government Solutions Group
ADR ....Alternative Dispute Resolution
APM ....American Pension Management
BIF ....Bank Insurance Fund
BOA ....Bank of America
BSA ....Bank Secrecy Act
CD ....Certificate of Deposit
CHRIS ....Corporate Human Resources Information System
CPA ....Certified Public Accountant
CRA ....Community Reinvestment Act
CTR ....Currency Transaction Report
DCA ....Division of Compliance and Consumer Affairs
DFOB ....Dallas Field Operations Branch
DIRM ....Division of Information Resources Management
DOF ....Division of Finance
DOS ....Division of Supervision
DRR ....Division of Resolutions and Receiverships
ECIE ....Executive Council on Integrity and Efficiency
ED ....Examination Documentation
FBI ....Federal Bureau of Investigation
FFIEC ....Federal Financial Institutions Examination Council
FDIC ....Federal Deposit Insurance Corporation
FSS ....Federal Supply Schedule
GAO .................U.S. General Accounting Office
GSA ....General Services Administration
HHS ....Department of Health and Human Services
INNOLOG ....Innovative Logistics Techniques, Inc.
IRS ....Internal Revenue Service
ISR ....Independent Security Review
IT ....Information Technology
MCI ....MCI WorldCom, Inc.
MWSB...............Murphy-Wall State Bank
OFAC ....Office of Foreign Assets Control
OI ....Office of Investigations
OICM ....Office of Internal Control Management
OIG ....Office of Inspector General
OMB ....Office of Management and Budget
PCIE ....President's Council on Integrity and Efficiency
PNC ....PNC Mortgage
Results Act ....Government Performance and Results Act
RLS ....Receivership Liability System
RTC ....Resolution Trust Corporation
SAIF ....Savings Association Insurance Fund
SAR ....Suspicious Activity Report

Of Special Interest

The Inspector General community has published three issues of the *Journal of Public Inquiry* that may interest readers of this semiannual report. The first special issue focused on past work of the Inspector General community that has contributed to improved effectiveness, efficiency, and integrity in government programs and operations (Spring/Summer 2000).

The second issue focused on a current government-wide priority—Human Capital—and offered perspectives on the federal workforce and the importance of developing the human capital of the Inspector General community (Fall/Winter 2000).

Finally, a special edition of the Journal addressed important issues and challenges facing the new administration, as seen from the vantage point of the Inspectors General (Fall/Winter 2000).

If you are interested in receiving copies of these publications, please contact us at (202) 416-4255.

Congratulations and Farewell

The OIG acknowledges the distinguished federal careers of the following individuals who retired during the reporting period:

Steven A. Switzer, Deputy Inspector General for Audits: 34 years of federal service, most of which was spent in the Inspector General community.

Dana Bedwell, Special Agent in Charge, Atlanta Field Office of Investigations, Atlanta, Georgia: 32-year career in law enforcement, including 21 with the federal government.

Edward Sobota, Audit Specialist, Washington, D.C.: 15 years of service with the FDIC.

Shirley Ward, Regional Director for Audits, Dallas, Texas: 33 years of federal service.

Lorin Wiseman, Senior Investigator, Washington, D.C.: 28-year federal career, 16 years with the FDIC.

Hank Smith, Senior Management Analyst, Washington, D.C.: 32 years of federal service, 29 of which were spent at the FDIC.

The OIG thanks these individuals for their service to the American people and wishes them all a happy retirement.

OIG Hotline

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

Design by FDIC/DOA/ACSB/Design & Printing Unit

To learn more about the FDIC OIG and for complete copies of
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