Federal Deposit Insurance Corporation

Office of Inspector General

Semiannual Report to the Congress

April 1, 2000 - September 30, 2000

FDIC

The Congress created the Federal Deposit Insurance Corporation (FDIC) through the Banking Act of 1933 to provide protection for bank depositors and to foster sound banking practices. The FDIC insures deposits at more than 10,100 of the nation's banks and savings associations. In cooperation with other federal and state regulatory agencies, the FDIC promotes the safety and soundness of these institutions and the U.S financial system by identifying, monitoring, and addressing risks to which the deposit insurance funds are exposed.

The FDIC Office of Inspector General (OIG) accomplishes its mission by conducting independent audits, investigations, and evaluations and by keeping the FDIC Chairman and the Congress fully and currently informed of the FDIC OIG's work. Five core values drive the work of the OIG: independence, effectiveness, integrity, quality, and respect.

The FDIC OIG acts as an agent of positive change, striving for continuous improvement in and protection of FDIC programs, operations, and management. The OIG is committed to the Congress and the American public to promote good government and to create an environment where employees with diverse backgrounds have an opportunity to learn, excel, and be proud of the work they do.

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Inspector General's Statement

AS WE ISSUE THIS SEMIANNUAL REPORT, we anticipate a new Administration will be preparing to lead the country. This Administration will provide leadership at a time when the economy appears prosperous–economic expansion, low unemployment, low inflation, high productivity growth, low and stable interest rates, and significant technological advances. Of particular interest to us at the Federal Deposit Insurance Corporation (FDIC) is that the banking industry itself is currently strong, having survived the tumultuous years of crises in the 1980s and escaped the potential negative effects of the coming of Year 2000. The new Administration will take office undoubtedly with a keen interest in sustaining the health of the economy, leveraging the value of technology, and maintaining public trust in federal systems and activities. The American people too want efficient government services and effective stewardship of public resources. The FDIC Office of Inspector General (OIG) shares this vision.

And while all appears to be so prosperous, none of us can be complacent–not with the lightning pace of change in the world around us–especially evidenced by the wondrous technology that impacts every facet of our lives more and more each day. And with the economic landscape and global marketplaces subject to sudden fluctuations, the banking industry is also vulnerable to risk. So we at the FDIC must focus our attention on some key questions: What are the current challenges and risks? How should they best be addressed? What risks lie ahead? What do we need to be ready for?

In considering the answers to these questions, we need to acknowledge that banking today is dramatically different from what it used to be. Enactment of the Gramm-Leach-Bliley Act in November 1999 created sweeping changes in banking law. It allows affiliations between insured banks and financial companies, including securities and insurance firms, in new types of entities called financial holding companies. The Act also allows national banks to form financial subsidiaries that could engage in financial services that, in general, do not include insurance or real estate development or investment. It also requires financial institutions to establish privacy policies and protect the confidentiality of customer information.

Additionally, in terms of size, complexity, and sensitivity to the global economy, banks have changed greatly. As institutions have been consolidating, huge conglomerates, often called "megabanks," have been created. Banking activities related to cyber-banking, electronic cash, and other highly technical financial delivery systems also pose increasing risks to the safety and soundness of the industry and the deposit insurance funds.

Information technology is not only changing and modernizing the way banks conduct their business but also the way the FDIC carries out its mission and related activities. The Corporation increasingly depends on information technology (IT) to improve its performance and meet mission goals. As it spends millions of dollars each year on technology, the FDIC needs to be sure that it maximizes the return on this investment. Its challenge then is to ensure that modern IT management practices are consistently defined and properly implemented. These practices help ensure that IT dollars are directed toward prudent investments that achieve cost savings, increase productivity, and improve the timeliness and quality of the FDIC's services.

Notwithstanding the technological tools at work, we cannot lose sight of the fact that it is the workforce of the FDIC that is providing the FDIC services and working to maintain the stability of, and public confidence in, the banking industry. This workforce has downsized significantly over the years. Consider the following: about 15,600 FDIC employees in mid-1992; 6,733 employees as of September 30, 2000. As the current workforce ages, new skills are needed to keep pace with current and emerging demands, and competition for qualified individuals is fierce. The FDIC has taken major steps forward by establishing goals and pursuing diversity initiatives that address the challenges of lost institutional knowledge and needed expertise. Continuing to effectively manage its human capital is essential to achieving results. Only when qualified employees are on board and provided the training, tools, structure, incentives, and accountability to work effectively is overall organizational success possible. Human capital must be an integral part of the FDIC's strategic and program planning. People are an asset to be valued.

Having focused on each of these areas and using a performance-based management approach, the Corporation's biggest challenge is to systematically integrate its thinking about organizational structures, programs, and services; the use of technology; and human capital practices as it makes decisions about the goals and results necessary to accomplish its mission. It needs to continuously monitor its progress in achieving results and refine its goals as indicated to be fully successful and accountable.

What role does the OIG play in helping to confront these types of challenges? We take our mission seriously–quite simply, our business is about effectiveness, efficiency, and integrity. During the reporting period we have carried out this mission zealously, been proactive in our approaches, and achieved results. We are focusing on core issues in conducting our audits, investigations, and other reviews and seeking answers to important questions that strike at the heart of the FDIC's mission and goals. Questions like the following: In what ways can the Corporation prevent risks to the insurance funds? How can the supervisory examination process best ensure safety and soundness of institutions and guard against possible fraud? Is the FDIC complying with legislative mandates to protect consumer interests? What steps can the Corporation take to leverage the value of its information technology in a cost-effective manner? Are its systems and the data they contain secure? Is the Corporation employing sound financial management practices and fairly presenting the condition of the funds in its financial statements? Are contractors delivering to the Corporation the services that they are being paid for? How can strategic resources be more effectively managed to achieve cost savings? Does criminal activity exist that may harm (or threaten to harm) the operations or the integrity of the FDIC and its programs? How can the Corporation prevent such threats to its success?

It is important to note that our orientation in pursuing these questions is not to find out what is wrong but rather to look for solutions and determine what works best. And while many questions drive our work, we do not claim to have all the answers. It is for this reason that while still maintaining our independence, we find it beneficial to work with others in seeking the answers. Examples from the reporting period attest to the cooperative partnerships we have forged in conducting our work. These partnerships involve FDIC management, the Chief Financial Officer, the Chief Information Officer, the Audit Committee, the Corporation's Office of Internal Control Management, the U.S. General Accounting Office, U.S. Attorneys' Offices, other financial institution regulators, and members of the Inspector General community.

Assisted and supported by our colleagues, we have achieved good results. Noteworthy during the period, our audits and evaluations resulted in questioned costs and funds put to better use of $11 million and 74 nonmonetary recommendations. Our investigations led to fines, restitution, and monetary recoveries of $10.7 million. We have also focused on communicating fully with corporate officials, the Congress, others in the Inspector General community, and law enforcement entities. With respect to our internal operations, we have placed emphasis on valuing our people, improving our processes, and strengthening our internal and external working relationships, all in the interest of a positive and successful future for the OIG. We need to be open to new, better ways of performing our mission and developing our people. We do, and will continue to, work at that.

As Vice Chair of the President's Council on Integrity and Efficiency with a view of Inspector General operations government-wide, I am proud of our accomplishments during the reporting period. I believe we are bringing our talents and expertise to bear on the issues that need to be addressed not only at the FDIC but throughout the government.

In closing, I return to the notion of leadership on which I began this statement and must bring attention to an urgent leadership matter at the FDIC. In past semiannual reports to the Congress I have voiced the need for strong, sustained leadership of the Corporation. I have been concerned that one of the positions of Director on the FDIC Board has been vacant since September 1998. The President has nominated an individual for that position and is still awaiting congressional confirmation of the appointment. And now, as the terms of both the Chairman and the Vice Chairman of the FDIC expire this month, there may be additional vacancies on the five-member Board, although the Federal Deposit Insurance Act permits these individuals to continue to serve until their successors have been appointed and qualified. Another nominee for a term as Director has also been announced by the White House. Again, in light of the many pressing challenges facing the Corporation as discussed earlier, I must underscore my hope that any vacant Board positions will soon be filled so that the Board can operate at full strength as it guides the future course of the FDIC.

The OIG appreciates the strong support of the Corporation and the Congress over the past 6 months. We wish the new Administration well as it leads our country and its people. We look forward to establishing constructive working relationships with all involved in this challenging endeavor.

Gaston L. Gianni

Gaston L. Gianni, Jr.
Inspector General
October 31, 2000


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Major Issues

The Major Issues section of our report focuses on key challenges confronting the FDIC as it works to accomplish its mission. 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. With respect to managing and liquidating assets, the Corporation seeks to maximize recoveries; it needs to be particularly vigilant regarding programs where large sums of money are at stake and where the FDIC does not control the entire management and disposition process. The area of securitized transactions is one such example. The Corporation must also continue its efforts to pursue court-ordered restitution and other debts that it is owed. In the event of any bank failures, the Corporation needs to stand ready to resolve institutions in the least costly manner.

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, including Internet capabilities, 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, an issue of concern raised by the U.S. General Accounting Office in its financial statement audit of the Corporation issued in May 2000. Given the extent of the FDIC's contracting activities, strong controls and vigilant contractor oversight are also critical to the Corporation's success. Contracting for much needed IT services, in particular, must be done in the most cost-effective manner. For all 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 is vulnerable to losses of leadership and, in some cases, expertise and historical knowledge. The Corporation's continuous diversity efforts are intended to help restore some of the lost talent and skill. The FDIC must build on ongoing initiatives and develop a comprehensive, integrated approach to human capital issues. It is currently working with a vendor to help develop a process for a human capital strategy. The Corporation will gain new insights from all employees as it receives their responses to a Gallup Organizational Assessment Survey, and the FDIC will need to respond to issues that emanate from that survey in the months ahead.

Not to be overlooked is the importance of establishing financial management capabilities that effectively support decisionmaking and accountability. In that regard the Corporation's financial statements must accurately reflect the financial condition of the FDIC. And, finally, under the provisions of the Government Performance and Results Act, for all of these major issues, the Corporation must establish goals, measure performance, and report on its accomplishments.

Our Major Issues section also discusses the OIG's ongoing and 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 $11 million. We made 74 nonmonetary recommendations. Our work targets all aspects of corporate operations and includes a number of proactive approaches and cooperative efforts with management to add value to the FDIC (see pages 10 - 27).

Investigations

The operations and activities of the OIG's Office of Investigations are described beginning on page 28 of this report. As detailed in the Investigations section, the Office of Investigations is reporting fines, restitution, and recoveries totaling approximately $10.7 million. Cases leading to those results include investigations of obstructing a bank examination, embezzlement, bankruptcy fraud, computer hacking, 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 the FDIC's Division of Supervision and Division of Resolutions and Receiverships. To ensure continued success, the OIG will continue to work collaboratively with FDIC management, U.S. Attorneys' Offices, the Federal Bureau of Investigation, and a number of other law enforcement agencies (see pages 28 - 35).

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 people, improving our processes, 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 coordinating with corporate management from all divisions on annual audit planning, working with the Office of Internal Control Management on audit resolution and risk management-related matters, 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 36 - 43).

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 44 - 56).

Information Required Under Proposed S.870

The Congress is considering amending the Inspector General Act, and S.870 is the proposed legislation that lays out, among other items, new reporting requirements for the Inspector General community.

The legislation would require annual, rather than the current semiannual, reporting to the Congress and change matters to be included in that annual report. In anticipation of the possible passage of S.870, we are including a section in this current report with information related to those new matters (see pages 57 - 59).

Highlights

- The Office of Audits and Office of Congressional Relations and Evaluations issue a total of 33 reports and 20 other audit- or evaluation-related products. The reports identify questioned costs of $10.2 million and funds put to better use of $818,345. Management disallows all costs questioned.
- OIG reports include 74 nonmonetary recommendations to improve corporate operations. Among these are recommendations to further strengthen the Corporation's risk-focused examination process, enhance controls over payments to loan servicers and other contractors, implement cost control procedures for information technology development projects, and improve contractor oversight.
- OIG investigations result in 2 arrests; 15 indictments/informations; 11 convictions; and approximately $10.7 million in total fines, restitution, monetary recoveries, and asset forfeitures.
- The OIG reviews 11 proposed or existing federal regulations and legislation and 36 proposed FDIC policies and responds to 18 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 September 30, 2000, the OIG is conducting 54 cases that are being coordinated with DRR and involve a total of over $382 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 and issue their report on May 26, 2000. The Corporation receives an unqualified opinion from the auditors. The OIG plays an increasingly greater role, assumes audit responsibility for major portions of the audit, and implements a "continuous auditing" approach for the project.
- The OIG coordinates with and assists management on a number of projects, including issues related to contractor oversight, with special attention to information technology service contracts; addressing emerging FDIC Internet and Intranet privacy concerns; examining a corporate request for expenditure authority for telecommunications services; and reviewing the FDIC's equal employment opportunity complaint process.
- The OIG undertakes a number of internal office initiatives, including issuing our Long-Range Strategic Plan, implementing an expanded rotational assignment program, establishing a program to offer high-quality leadership training to OIG staff, briefing the FDIC Operating Committee on the results of the OIG's Client Survey, and issuing a study of past OIG training activities to help formulate future training and staff development plans.
- The OIG issues results of its *Material Loss Review of the Failure of Pacific Thrift and Loan* (PTL), reporting that PTL management did not operate the institution in a safe and sound manner and that the FDIC's regulatory oversight was appropriately responsive to the risks associated with the institution's activities.
- The OIG makes recommendations to improve consistency in the Corporation's Community Reinvestment Act examination procedures, use and analysis of data in Community Reinvestment Act reports, and quality assurance controls.
- To help prevent incidents of fraud in financial institutions, the OIG's Office of Investigations gives presentations at the FDIC's Commissioned Examiner Seminars. Office of Audits also participates in a joint project with the Division of Supervision to review FDIC initiatives for detecting fraud during safety and soundness examinations.

Highlights

- The OIG issues a series of nine reports related to securitizations serviced by Ryland Mortgage Company in which we questioned over $7 million. Corporate management disallows all costs questioned.
- The OIG completes the second in a series of evaluations associated with the FDIC's voice and video long-distance services contract with MCI WorldCom, Inc., identifying almost $1.26 million in charges that were unsupported.
- The OIG conducts a review of FDIC Employee Use of the Internet to assist FDIC management in determining and implementing an effective, cost-beneficial control strategy for Internet use.
- Two OIG special agents are honored by the U.S. Attorney's Office of the Southern District of West Virginia for their contributions in the investigation of bank officials at the now defunct First National Bank of Keystone, Keystone, West Virginia.
- As Vice Chair of the President's Council on Integrity and Efficiency, the Inspector General testifies on proposed Inspector General Act amendments and statutory law enforcement authority before the Senate Committee on Governmental Affairs.
- The OIG provides Senator Fred Thompson, Chairman of the Senate Governmental Affairs Committee, the results of its analysis of the FDIC's *1999 Program Performance Report,* finding that the Corporation's performance goals relate directly to OIG-identified major issues and challenges and that annual corporate goals and reported results are closely linked.
- In reviewing corporate performance goals, the OIG suggests that the Corporation consider developing an annual goal or goals related to contractor oversight. The Corporation agrees to do so in its 2001 plan.
- The OIG issues its *Annual Performance Plan for 2001* and *Internal Resource Management Performance Plan for 2001*.
- An OIG Employee Advisory Group is established to communicate issues of employee concern to the Inspector General.

The Corporation's mission is a challenging one: to contribute to stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships. In conducting our audits, evaluations, investigations, and other reviews of corporate programs and activities, we have identified a number of major issues that the Corporation confronts as it carries out this vital mission. Our interactions with corporate management and our various written products seek to promote the economy, efficiency, and effectiveness of the FDIC's programs and operations and protect against fraud, waste, or abuse that can threaten the Corporation's successful accomplishment of the challenges it faces. The sections that follow discuss the major issues and the OIG's work to address these issues during the past 6 months.

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. This task requires the coordinated efforts of staff from several divisions of the FDIC and various automated systems 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. Additionally, the identification of risks in non-FDIC-supervised institutions requires coordination with the other federal banking agencies.

The FDIC strives to identify risks to the deposit insurance funds presented by any deterioration in the health of the industry. An important tool in addressing risks in individual institutions is the Corporation's risk-focused examination process. On October 1, 1997, the FDIC, in conjunction with the Federal Reserve Board and the Conference of State Bank Supervisors, began implementing a new risk-focused examination process designed to focus bank examinations on functions that pose the greatest risk. The FDIC also has statutory powers to examine any non-FDIC-supervised institution for insurance purposes.

In addition to onsite examinations, the FDIC attempts to identify risks through its off-site monitoring program, which focuses on evaluating the financial condition of the institutions through capture, analysis, and review of data included in quarterly call reports. The Division of Supervision (DOS) uses off-site monitoring to identify risks to both FDIC-supervised and non-FDIC-supervised institutions and as an early warning tool to identify the need for onsite analysis. Once the risks are identified, the FDIC can adjust the risk-based deposit insurance premiums assessed to the insured depository institutions. The Division of Finance completes the final phase in this ongoing process by collecting the premium assessments.

Although the FDIC has an ongoing program to ensure the viability of the deposit insurance funds, recent trends and events are posing additional risks to the deposit insurance funds. The recent spate of bank mergers has created "megabanks," and, for many of these, the FDIC is not the primary federal regulator. As of June 30, 2000, the 43 largest banking organizations in the U.S. controlled assets totaling $5.4 trillion, accounting for over 60 percent of over 10,000 FDIC-insured institutions. Of the 43, the FDIC was the primary federal regulator for only 3 megabanks.

Further, 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 system, the

FDIC is taking 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 maintains a vigilant watch over other areas of banking that could erupt into problem areas. The Division of Research and Statistics and the Division of Insurance proactively analyze and evaluate trends in the economy, conditions in the banking and financial markets, and developments in key sectors of the economy (such as real estate, commerical lending, and agriculture). Economists and analysts are reviewing areas such as the boom in the building of commercial real estate properties. The FDIC maintains a list of locations where there is a potential of overbuilding, which could result in a proliferation of problem loans to financial institutions if the economy softens. Through various reporting vehicles, such as the research and reporting in the commercial building area, the FDIC guards the safety and soundness of the nation's financial institutions.

Finally, the enactment of the Gramm-Leach-Bliley Act in November 1999 also 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 Act also allows national banks to form financial subsidiaries that could engage in financial activities that, in general, do not include insurance or real estate development/investment. The "megabanks" created as a result of mergers and the new 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.

OIG Addresses Risk-Focused Examination Issues

During the reporting period we completed a follow-up audit of the FDIC's implementation of the risk-focused examination process. In November 1998 we issued an initial audit report on the risk-focused examination process and found that the process was not being implemented in DOS field offices as intended by DOS headquarters management. In response to that audit, DOS issued a series of divisional memoranda clarifying the program's goals and objectives and provided additional training to examiners to assist them in implementing the risk-focused process.

The report we issued during this reporting period assessed the overall progress DOS has made in implementing the risk-focused approach since our 1998 review. We determined that DOS has made substantial progress. The divisional memoranda and additional training have helped clarify what is expected of examiners. Examiners we interviewed appear to have a better understanding of the risk-focused process, and we noted that the use and documentation of the examination modules have improved since our last audit. However, we found there were still aspects of the process that need attention. Specifically, we found that there were inconsistencies in the way examiners have been implementing the process. Also, many examiners were still uncertain as to what constitutes adequate documentation of the modules, the supervisory process varied greatly between field offices, and examiners were generally not using the automated software except to print out module questions. The process was generally better implemented in those field offices that had a structured supervisory review process. Finally, we determined that guidance was needed to help clarify examiner responsibility for conducting the risk-focused examinations in cases where examinations are conducted jointly with other federal bank regulators.

We made six recommendations to help ensure uniformity and consistency in the examination process nationwide. Management agreed to continue to take recommended actions.

Several ongoing audits are addressing other aspects of the risk-focused examination process. One audit relates to DOS's review of bank compliance with the Bank Secrecy Act during safety and soundness examinations. Another deals with the extent to which DOS examiners use expanded and impact analysis procedures for high-risk areas during examinations.

We will discuss the results of those efforts in our next semiannual report.

> "...under Chairman Tanoue's direction, investigating fraud at banks is among the highest priorities for FDIC examiners because recent changes in the business of banking and innovations in computer technology create greater opportunity for financial irregularities."
>
> (FDIC Annual Report 1999)

OIG Focuses on the Risk of Fraud in Institutions

Although the rate of bank failures has decreased significantly in recent years, the Corporation has experienced several major bank failures over the past few years. The failure of Best Bank in 1998, which we discussed in an earlier Semiannual Report, and the more recent failure of the First National Bank of Keystone, resulting in losses of $171 million and $750 million to $850 million, respectively, are good examples. Significantly, fraud appears to have played a major role in those failures.

OIG Deputy Counsel Fred Gibson speaking at FDIC Fraud Conference.

Leslye Burgess and John Colantoni from the OIG and Susan Evans (DOS) form team to review DOS initiatives for detecting fraud during safety and soundness examinations.

The OIG is an active participant in efforts to prevent incidents of fraud in institutions that may ultimately cause losses to the insurance funds. During the reporting period, representatives from our Office of Investigations (OI) initiated a series of scheduled presentations for DOS's Commissioned Examiner Seminars. OIG agents developed a presentation that provides an overview of OI operations; the implementation of the October 8, 1999 DOS/Legal/OIG agreement regarding open bank investigations; and highlights of several OI cases. A significant portion of the presentation focuses on the closing of Keystone and lessons learned from that case. The OIG is making presentations at the six DOS classes scheduled for 2000 and at an additional five or six sessions scheduled for 2001.

Furthering our efforts to combat fraud, several OIG staff participated in the Corporation's Eighth Annual Fraud and Enforcement Training Conference in Austin, Texas, during the reporting period. Our Assistant Inspector General for Investigations, one of our investigators, and an OIG Deputy Counsel presented a session on our work related to fraud at Keystone. Additionally, staff from our Office of Audits participated in a joint project with DOS to review DOS initiatives for detecting fraud during safety and soundness examinations. This project was initiated as a joint effort to take advantage of our combined experience in examination techniques, audit techniques, and fraud investigations. The review team made a number of suggestions for DOS to consider in enhancing the Division's current efforts to train their examiners in fraud detection and examination techniques as well as the importance of interagency coordination.

Supervising Insured Institutions and Protecting Consumer Interests

The FDIC's supervision program helps to fulfill the corporate mission of contributing to stability and public confidence in the nation's financial system by promoting the safety and soundness of insured depository institutions, protecting consumers' rights, and promoting community investment initiatives by FDIC-insured depository institutions. The FDIC shares supervisory and regulatory responsibility for approximately 10,100 banks and savings institutions with other regulatory agencies, including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and state authorities.

As of June 30, 2000, the FDIC was the primary regulator for approximately 5,700 financial institutions that have assets totaling nearly $1.4 trillion. In addition, the FDIC provides supervisory oversight, though not as the primary regulator, for about 4,400 financial institutions with assets of about $5.8 trillion.

The challenge to the Corporation is to ensure that its system of supervisory controls will identify and effectively address financial institution activities that are unsafe, unsound, illegal, or improper before the activities become a drain on the deposit insurance funds.

In accordance with statutory requirements and corporate policy, DOS projected starting almost 2,634 safety and soundness examinations in 2001. As referenced earlier, DOS also provides off-site monitoring for all insured institutions, including those for which it is not the primary regulator. This monitoring includes reviewing Office of the Comptroller of the Currency, Office of Thrift Supervision, and Federal Reserve Board examinations and Securities and Exchange Commission filings. DOS also processes applications for numerous bank activities such as new bank proposals, mergers, and change of control requests. Further, DOS initiates formal enforcement actions and informal corrective programs as a result of its examinations.

Consumer Rights

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. 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 and CRA performance evaluation examinations. During 2001, the FDIC estimates that it will perform 662 comprehensive (compliance and CRA) examinations and 1,687 compliance examinations.

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. Further, due to the public interest aspect of consumer protections and potential consumer exposures, the FDIC has a strong incentive for detecting and promptly correcting problems in institutions; promoting compliance with consumer protection laws and regulations; and increasing public understanding of and confidence in the deposit insurance system. The Division of Compliance and Consumer Affairs (DCA) is reassessing its compliance and CRA workload in consideration of the extended CRA examination cycles required by the Gramm-Leach-Bliley Act. DCA functions also include responding to consumer complaints and inquiries. The volume of complaints and inquiries is expected to decrease from 175,000 in 2000 to a range of between 140,000 and 160,000 within the next 4 years.

Some of these complaints and inquiries relate directly to financial literacy and predatory lending–issues of primary concern for the FDIC's DCA. Financial literacy is aimed at educating people about basic financial services and informing the public that insured institutions are a safe place to keep money. Predatory lending is when customers are enticed into transactions through various schemes and are charged higher interest rates and fees than necessary to cover the actual risks associated with those transactions. In particular, there is a concern that these practices have a disproportionately negative effect on underserved 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 customer privacy. With the enactment of the Gramm-Leach-Bliley Act, the FDIC, along with other financial institution regulators, must implement regulations requiring the institutions to develop programs to ensure the privacy of customer information. The Act limits the instances in which a financial institution may disclose nonpublic personal information about a customer to nonaffiliated third

OIG Reviews an FDIC Enforcement Action

We performed a two-phased review based on allegations we received from a Senator on behalf of his constituent—the chief executive officer, director, and 100 percent shareholder of an open institution. The constituent alleged regulatory abuse on the part of the FDIC associated with the Corporation's handling of an enforcement action against the constituent.

During the first phase of our review, we assessed internal controls designed by the FDIC to prevent the initiation of legal proceedings that are not supported by facts and law. We responded to the Senator on April 5, 2000. We reported that the FDIC's current policies and procedures are designed to ensure that facts and information developed support the charges alleged and the action sought is legally justified and appropriate. We also reported that approval to pursue formal enforcement actions goes to the highest level of the FDIC and includes other independent federal regulators who serve on the FDIC's Case Review Committee.

The second phase of our evaluation addressed the merit of the constituent's specific allegations. We reviewed the administrative hearing transcript that contained testimony by FDIC employees implicated by the allegations, bank employees, and the three borrowers of the apparent nominee loans associated with the enforcement action. We also reviewed numerous documents from the FDIC's Legal Division and Division of Supervision. We communicated our results to the Senator and the National Ombudsman. We were unable to substantiate any of the allegations and concluded that the allegations generally lacked merit.

parties and requires a financial institution to disclose to its customers the institution's privacy policies and practices with respect to information-sharing with both affiliates and nonaffiliated third parties. The Act further requires financial institutions to allow customers to opt out of such information sharing and requires that all notices to customers be clear and conspicuous. On May 10, 2000, the bank regulators jointly adopted and issued a final rule for the *Privacy of Consumer Financial Information*. The regulations are effective November 13, 2000. In order to provide sufficient time for financial institutions to establish policies and procedures and to put in place systems to implement the requirements of the regulations, the time for full compliance with the regulations is extended until July 1, 2001. The regulations were published in the June 1, 2000 *Federal Register*.

OIG Material Loss Review Examines Impact of IORRs on Safety and Soundness

During the reporting period, in accordance with section 38(k) of the Federal Deposit Insurance Act, we conducted a material loss review of the failure of Pacific Thrift and Loan Company (PTL), Woodland Hills, California, to determine the causes of the thrift's failure and to evaluate the FDIC's supervision of the thrift. PTL was closed on November 19, 1999 with total assets of $117.6 million. At the time of closure, the FDIC estimated that the Bank Insurance Fund would incur a loss of $49.9 million. The estimated loss was raised to $52 million as of December 31, 1999. The loss was exacerbated by PTL's sizeable investment in interest-only residual receivables (IORRs) generated through its securitization program. DOS's regulatory efforts acknowledged the risks associated with the IORRs and attempted to quantify any potential losses in the IORRs.

Our review determined that PTL's management did not operate the institution in a safe and sound manner, which led to losses in the thrift's IORRs generated in connection with the securitization of subprime loans. PTL's losses were compounded by PTL's application of an accounting standard in which management established extremely optimistic assumptions for projecting and recording anticipated future income associated with the IORRs. The unrestrained borrowing through lines of credit and cash advances on the IORRs by the parent holding company allowed PTL to generate loans without reliable and stable funding sources. This was clearly demonstrated when funding sources began to collapse with the Asian financial crisis in 1998, and PTL was unable to recover from its already strained liquidity position to continue to compete in the securitization arena.

Our report acknowledged that the FDIC's regulatory oversight of PTL was responsive to the risks associated with the thrift's IORRs. DOS's regulatory efforts demonstrated attempts to address the risks associated with the IORRs given the power, ability, and market information that were available to DOS at that time.

Since the failure of PTL, the FDIC's DOS has issued significant examination guidance regarding subprime lending and asset securitization. The guidance specifically addresses the risks posed by subprime lending and asset securitization as well as the examination methods and regulatory treatment that examiners are to use when they encounter financial institutions engaged in either or both types of activities. We recommended that DOS actively pursue amending the capital standards to exclude interest-only residuals from the calculation of Tier 1 Leverage Capital. The federal regulatory agencies drafted a proposal to restrict the amount of IORRs from subprime securitizations. The Board approved the proposal during August 2000 and it is currently out for public comment. In addition, we recommended that DOS develop an approach for limiting an institution's interest-only residuals to an amount that will not impair the capital protection of the institution. Regarding the unique structure of industrial loan companies, we recommended that DOS staff be reminded that they have a right of access to and may examine the records of affiliated entities under section 10(b) of the Federal Deposit Insurance Act and that DOS examiners should routinely review institutions' material intercompany transactions with unregulated holding companies. Finally, due to delays and confusion surrounding the independent valuations performed by a public accounting firm conducting work for PTL at the request of the FDIC, we offered a recommendation to improve this process going forward.

Corporate management agreed with all of the recommendations in our material loss review report.

OIG Raises CRA Examination Issues

With respect to the OIG's work related to consumer rights, one of the most significant reports of the reporting period was our report entitled *Audit of the Division of Compliance and Consumer Affairs' CRA Examination Process.* We brought the report to the attention of several congressional committees because of their continuing interest in the implementation of and changes to the CRA of 1977.

We reviewed the reports from 57 CRA examinations started by the FDIC in 1998. We found that the FDIC's CRA procedures did not provide specific guidance in some critical areas of the evaluation process and, as a result, FDIC examiners were not consistently applying the procedures within and among regional offices. We also found that the FDIC's CRA reports did not comprehensively identify the credit needs of the communities in which the banks were operating and did not consistently include sufficient and comparative analytical data on the banks' small business lending performance to explain the basis for the examiners' conclusions. In addition, we determined that the FDIC's internal control procedures over the supervisory review of CRA reports and workpapers needed to be enhanced to ensure consistency in CRA analyses and ratings. We believe the inconsistencies and other weaknesses in the CRA review process demonstrate a material internal control weakness. Enhancements to control procedures are necessary before FDIC management can be assured that examiners are conducting examinations consistently and in accordance with procedures.

We made seven recommendations to improve consistency in examination procedures, the use of community contact information and comparative analytical data in CRA reports, and internal controls for quality assurance reviews and workpaper maintenance. FDIC management agreed to implement six of our seven recommendations. While management did not agree with our specific recommendation to include a separate section in each CRA report on the results of community contacts, management did commit to improving the presentation of data gleaned from community contacts.

The Corporation issued examination procedures for small banks that went into effect on January 1, 1996. Procedures for large banks went into effect on July 1, 1997. The Corporation issued supplemental Large Bank CRA Guidance to its regional offices in December 1998, in part, to improve consistent data presentation in the CRA reports. In responding to our report, management stated that it believed the supplemental large bank guidance issued just prior to our review addressed many of the issues raised by our report. We reviewed this document during our audit. We do not believe this guidance fully addresses the concerns we identified or the corrective actions we recommended in our report. Although the guidance should improve consistency in certain areas, it does not provide examiners specific criteria or instructions to follow for critical areas of the examination, does not address internal control issues such as quality assurance reviews or workpaper standards, and is not applicable to the many small bank examinations conducted by the FDIC.

During the course of our audit, the FDIC took prompt action to initiate a task force to perform a comprehensive review of CRA reports from FDIC regions. The task force will address a wide range of issues relating both to the examination process and the CRA reports. FDIC management expects to complete this review and provide additional training to all DCA examination staff by December 2000, with full implementation in the field no later than June 2001.

The OIG will continue to address the Corporation's efforts related to CRA and other consumer protection issues. Currently we are auditing the FDIC's implementation of the Fair Lending Examination Procedures. "Fair lending" is a catch phrase for compliance with federal laws and regulations prohibiting discrimination in the lending process.

Maximizing Returns from Failed Institutions

One of the FDIC's main goals is to minimize the negative financial effects of failing and failed insured depository institutions in its receivership management program. To do this, the Corporation has identified four strategic goals within the receivership management program area: (1) failing insured depository institutions are resolved in the least costly manner, (2) receivership assets are managed and marketed to maximize net return, (3) professional liability and other claims of the receivership are pursued in a fair and cost-effective manner, and (4) receivership claims and other liabilities are resolved in a fair and cost-effective manner.

The Division of Resolutions and Receiverships (DRR) is responsible for resolving failed institutions and managing or liquidating remaining assets. As reported in the FDIC's second quarter edition of the *Regional Outlook*, changes in the U.S. economy during the current, record-long expansion may be increasing financial and market risks for the banking industry. FDIC analysts describe how "New Economy" trends, which may produce longer expansions, also introduce the possibility of more severe recessions. According to the report, long expansions allow banks and their customers to take on more leverage and possibly more risk; growing indebtedness leaves both consumers and businesses vulnerable to rising interest rates. DRR has made significant efforts in the area of contingency planning in the event the number of bank failures increases. DRR has identified "failure" scenarios and is preparing readiness plans that would assist in fulfilling DRR's resolution and liquidation responsibilities for those scenarios.

As of September 30, 2000, the FDIC held assets for liquidation that totaled approximately $1.2 billion in book value. Although the current and projected asset workload is far below the $165 billion held by the FDIC and Resolution Trust Corporation (RTC) in 1992, effectively managing assets and ensuring the timely, efficient resolution of assets at the maximum price is an integral component of the Corporation's mission.

Future audit areas will include DRR systems and processes, such as the management and oversight of contracts and third-party agreements, receivership termination activity, and review of contingency plans and closing procedures for future resolutions. As discussed later in this report, in the spirit of the Government Performance and Results Act, current and future OIG work is intended to aid DRR in accomplishing its goals as outlined in its strategic plan.

OIG Focuses on Securitizations

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.[1] At the RTC's sunset date, the FDIC inherited a total of 72 securitization transactions with an initial credit reserve balance of $7.8 billion. As of July 25, 2000, the FDIC reported that 33 active securitizations with a credit reserve balance of about $1.8 billion remained in its inventory.

During the current reporting period we completed 10 audits that focused on the effectiveness of securitization servicers. Nine of those 10 audits focused on a shared servicer, Ryland Mortgage Company. In the other audit (related to RTC 1992-C4), we determined that although the securitization's special servicer properly calculated its servicing fees, there were problems associated with realized loss calculations and with interest paid to certificateholders after loans were liquidated. Collectively, these 10 audits resulted in questioned costs of approximately $7.1 million.

Reviews of Nine Securitizations Serviced by Ryland Mortgage Company Question over $7 Million

This semiannual period we reviewed the claims made to the credit enhancement reserve funds for nine RTC securitization transactions known as 1991-01, 1991-03, 1991-07, 1991-09, 1991-12, 1991-15, 1992-01, 1992-03, and 1992-04 (Securitizations). Ryland Mortgage Company (Ryland) serviced these Securitizations, and an independent professional services firm performed these audits under the direction of the OIG.

We reported that of the $26.8 million in claims to the Reserve Funds for the 428 sample loans, we identified questioned costs totaling $7,133,619, or 27 percent of total claims reviewed. Of the total questioned costs, $6,103,495 was characterized as unsupported and $1,030,124 was considered to be other questioned costs that were unallowable or excessive under the terms of the Securitizations' related agreements. The FDIC's DRR agreed to disallow all of the costs we questioned and is currently negotiating a settlement with Ryland regarding the questioned amounts.

OIG Advises Caution in Plan for Resecuritization

The OIG also reviewed DRR's plans to resecuritize commercial mortgage loans held in various terminating securitizations. We determined that resecuritizing DRR's 10 chosen terminating securitizations offered marginal potential benefit over the whole loan sale option while possibly exposing the FDIC to financial risk. We discussed our concerns with DRR management throughout the course of our audit. Then, on July 26, 2000, DRR indicated that current market conditions did not favor the resecuritization. Instead, DRR planned to first test the whole loan sale market by selling 2 of the 10 securitizations and then reassess whether to continue with the whole loan sales of the remaining 8 securitizations or pursue the option of resecuritization.

The OIG expressed two observations regarding DRR's resecuritization plans. First, we found that the characteristics of the proposed portfolio significantly limited its potential as a successful resecuritization. We believed this was true because the improved quality of these loans along with their much shorter average loan life made the resecuritization option less attractive while potentially exposing the FDIC to the credit, prepayment, and market risks inherent in securitizations. Second, although the OIG agreed with DRR management's decision to test the whole loan market, we were concerned that because the two securitizations planned for sale were not representative of the remaining portfolio, they may not provide a true indication of the value of the remaining portfolio.

We requested that DRR management keep us advised of the results of the upcoming whole loan sales and the status of any future plans to resecuritize the remaining loans.

OIG Addresses Other Asset Management Issues

OIG audits during the reporting period addressed a number of other asset-related matters, as briefly noted below:

- Because the Northeast Service Center (NESC) was scheduled to close on June 30, 2000 and its work was to be transferred to the Dallas office, the OIG undertook an audit of the NESC's collateral vault to determine the accuracy of its inventory prior to its scheduled closure.

- The OIG also completed an audit of residual interests from asset disposition decisions made by Settlement and Workout Asset Teams and found that certain RTC residual interests were not monitored.

- As a follow-on to our audit of the NESC's subsidiaries inventory, we performed a similar audit at the Dallas Field Operations Branch (FOB) and found that the Dallas FOB did not have a complete inventory of all FDIC subsidiaries for its geographic area of responsibility.

- Another audit led to DRR agreeing to require loan servicers to submit documentation before being paid.

OIG Work Results in Joint Investigative Cases That May Recover Millions of Dollars

The OIG continued to coordinate closely with DRR both at headquarters and the field offices on investigations of suspected criminal activity involving court-ordered restitution and other debts that are owed to the FDIC as a result of the 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

[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. The process results in mortgage-backed securities, or pass-through certificates.

resulted in losses to the FDIC. As of September 30, 2000, a total in excess of $1.1 billion is due as a result of outstanding criminal restitution orders.

Additionally, the FDIC is continuing to attempt to collect debts it is owed as a result of loans originated by financial institutions prior to their failure. The OIG's investigative work in these cases is 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 the criminal aspects of 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 September 30, 2000, the OIG is conducting 54 investigations that are being coordinated with DRR and involve over $382 million in outstanding restitution orders and other types of debt.

Managing Information Technology

Information technology (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 the IT advances that we are witnessing--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.

The Corporation has recognized the opportunities and challenges of incorporating advancements in technology into its internal operations and supervisory activities. The FDIC has issued a variety of publications, including the *FDIC Information Technology Strategic Plan for 2000-2005,* a document entitled *Emerging Technologies/Risks and Recommendations for the FDIC*, and office and divisional IT plans. These documents are focused on identifying technology to enhance and streamline the FDIC's operations, developing processes to provide increased assurances regarding the risks associated with financial institutions' use of new technologies, and developing and maintaining a trained and skilled workforce capable of assessing the impact of technology on the FDIC and financial institution operations.

In addition to technological advances, the Corporation must 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 pieces of legislation, including the Government Performance and Results Act, the Clinger-Cohen Act, and the Paperwork Reduction Act. In addition, the Congress has sent to the President H.R. 4205, the National Defense Authorization Act, which contains legislation related to IT security. The bill would require the OIG to conduct annual (for the next 2 years) evaluations of the FDIC's information security programs and practices. Also, the Office of Management and Budget (OMB) has recently proposed significant 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 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. The IT Strategic Plan contains the following six goals:

- Improve Customer Satisfaction by Delivering Better Application Systems
- Improve Business Processes Through the Use of Technology
- Manage Information for the Corporation
- Provide an IT Infrastructure that Works Everywhere, All the Time
- Improve the Efficiency and Effectiveness of IT Management
- Establish and Improve E-commerce Relationships with FDIC-Insured Financial Institutions and Regulatory Partners

Accomplishing these goals efficiently and effectively requires significant expenditures of funds and wise decisionmaking and oversight on the part of FDIC managers. The Corporation plans to invest approximately $202 million in IT resources during calendar year 2000. Its 2001 budget is approximately $185 million.

OIG's Work Aims to Leverage the Value of Information Technology

As part of our mission to promote economy and efficiency and reduce fraud, waste, and abuse, the OIG must continue to develop and maintain an understanding of new technologies and their benefits. We must ensure that the risks associated with the deployment of new technical strategies are adequately and effectively addressed both within the Corporation and by the institutions that it insures and supervises. Further, following system implementation, we conduct work to ensure that systems and activities continue to provide the service levels envisioned, that the success of corporate activities can be accurately measured, and that controls to address risks are diligently maintained. The OIG also considers and addresses the requirements of new and revised legislation and regulations as it assesses the FDIC's IT operations.

Our IT work during the reporting period related to such areas as system development, controls over specific applications, use of the Internet and Intranet, configuration management, compliance with Presidential Decision Directive 63, and expenditure authority for telecommunications contracts, as discussed in more detail below.

Electronic Travel Voucher Payment System Is Effective but Costly

During the reporting period we issued the results of our audit of the Corporation's development of the Electronic Travel Voucher Payment System (ETVPS). The OIG has been involved throughout the development effort. We issued several other products related to ETVPS during its development that we included as an appendix to our report. We conducted the audit to determine whether ETVPS adhered to generally accepted system development life cycle (SDLC) procedures, user requirements were adequately defined, and system deliverables satisfied user requirements in a cost-effective and timely manner.

We concluded that ETVPS will benefit the Corporation by reducing the time needed to prepare travel vouchers and streamlining voucher processing as well as providing travelers with a paperless means of obtaining rapid reimbursement for their travel expenses. The FDIC followed a sound and structured methodology for developing the system, and the development effort generally adhered to the FDIC's SDLC procedures. Further, ETVPS user requirements were adequately defined. However, system deliverables did not satisfy all user requirements when implemented in November 1999. The ETVPS project team has been addressing remaining requirements since implementation. Significant delays in system implementation and increases in costs raise serious questions about the timeliness and cost-effectiveness of the project. The system was originally scheduled for implementation in July 1998 but was not delivered until November 1999. Costs were originally estimated at $505,290 but exceeded $13.8 million as of February 29, 2000.

Although not in place at the time of ETVPS development, the Corporation has subsequently developed procedures to ensure more effective cost controls, including alerting the IT Council of significant changes in a project's cost, schedule, and risk. Our report identified additional opportunities for the FDIC to improve project management and cost controls for future system development efforts and contained eight recommendations. Among our specific recommendations were that the Corporation incorporate cost control procedures into either a formal policy directive or the FDIC's SDLC Manual; identify at the beginning of a project all resources believed necessary to complete the system development project and update this information periodically; obtain commitments to ensure these needed resources throughout the project and monitor progress; make the use of project numbers mandatory; and develop a master list of employee names for use by the system.

We are confident that management's positive responses to these recommendations will help ensure improved project management and cost controls for future system development efforts.

Sound Configuration Management Program Is Important to IT Success

We also issued a report related to the FDIC's IT configuration management (CM) program. CM is a critical element in the development of software and hardware because it is the disciplined approach to controlling the inevitable changes that occur during a product's life cycle. The FDIC was in the initial stages of developing a plan for a formal CM program and had already taken a number of positive steps. We made a recommendation as to what we felt were the salient features of an effective CM program for the FDIC. We believe that the FDIC should develop a centralized CM program that includes documented policies, procedures, and responsibilities to ensure that (1) CM includes the entire software development and modification process, (2) all FDIC software is included in the CM program, (3) all FDIC software is subject to standardized labeling and inventorying processes, (4) CM tools are consistently selected and used, and (5) the feasibility of integrating or consolidating CM tools currently in use is explored.

SHARP Controls Can Be Enhanced

With respect to specific application reviews, we looked at controls in place for SHARP, a system used by two of the FDIC's major divisions, DOS and DCA. The SHARP system is a computerized scheduling, hours, and reporting package tracking system. It has been developed for DOS and DCA to standardize the process of collecting and reporting hours-utilization information for examiners. DOS and DCA management use SHARP information for examination management and budget purposes, analyzing and tracking examination time spent, and projecting future staffing needs.

Overall, the SHARP system generally meets the needs of DOS and DCA examiners and management. DOS regional office reviews check the reliability of the SHARP data on a periodic basis. However, we noted some controls that DOS should strengthen over the data in SHARP to ensure data integrity and reliability. These controls relate to the input and review of employee hours and the prevention of data alteration. As for DCA's use of the system, DCA has developed an exception reporting process that identifies disparate data entries, and when such entries are identified, DCA follows up on them. However, we noted some controls that DCA should strengthen over the controls in the system to ensure data integrity. These controls relate to the input and review of employee hours, the prevention of data alteration, and the performance of regional office reviews.

Management agreed to implement added controls to address these areas.

FDIC Operates in the Spirit of Presidential Decision Directive 63

During the reporting period we participated in the first phase of an interagency effort under the auspices of the President's Council on Integrity and Efficiency (PCIE) to review implementation of Presidential Decision Directive (PDD) 63. PDD 63 calls for a national effort to ensure the security of the nation's critical infrastructures--those physical and cyber-based systems essential to the minimum operations of the

Reportable Condition in GAO Financial Statement Audit Relates to Information System Controls

As part of the Corporation's 1999 financial statement audit, the U.S. General Accounting Office (GAO)/OIG audit team reviewed the FDIC's information system general controls. These controls are designed to safeguard data, protect computer application programs, prevent unauthorized access to software, and ensure continued operation of systems in cases of unexpected interruption.

The audit team found that the FDIC's information system controls were "ineffective." Weaknesses were identified in the FDIC's corporate-wide security program, access controls, segregation of duties, and service continuity. According to GAO, these control weaknesses "significantly impair the effectiveness of FDIC's application controls, including financial systems." The audit also determined, however, that other management controls mitigated the effect of control weaknesses on the financial statements.

The FDIC recognized the seriousness of the identified control weaknesses and began taking immediate action to address them. Initiatives undertaken include identifying major applications and, for these, scheduling independent security reviews and completion of security plans and management authorizations.

As referenced in our discussion of Presidential Decision Directive 63, the OIG pursued a review of the Corporation's Information Technology Risk Management Program during the past reporting period. Throughout this project we worked closely with DIRM to help implement policies and practices that will strengthen controls in this area. Changes that DIRM is making in the area of sensitivity assessment questionnaires and tracking required major application documents will serve to address many of the concerns raised in the financial statement audit. We are in the process of formulating recommendations that will further address the concerns raised by GAO and, as stated earlier, will report our final results in our next semiannual report.

OIG Addresses FDIC Employee Internet Use Issues

The growth of the IT sector and the Internet, in particular, has been phenomenal throughout the federal government. We can hardly imagine accomplishing our various missions without the use of computers and the Internet resources they provide us. Despite the advantages, these new technological tools create certain risks that must be considered. To explore the overall environment of Internet use at the FDIC, the OIG conducted a review of FDIC employee use of the Internet. The review team looked at many issues in attempting to address the following questions: How does management control employee use of the Internet? What are the risks and threats to the Corporation when employees use the Internet? Are managers using the FDIC's existing Internet policy? How do other federal agencies control employee use of the Internet? What policies and practices exist elsewhere in the government and private sector that the FDIC can learn from? After conducting its work, the team presented its results to the FDIC's Operating Committee. We determined early on that senior management at the Corporation must make the decisions on Internet use. Thus, a primary goal was to provide corporate managers with decision factors needed to determine and implement the most effective, cost-beneficial control strategy for the FDIC. These decision factors included:

- Best practices from other federal agencies and from the private sector,
- Legal issues and recent legal decisions concerning privacy and Internet/e-mail monitoring,
- Advanced software monitoring tools and capabilities,
- The FDIC line managers' ideas and opinions concerning the extent of Internet misuse, and
- The FDIC's technical capabilities to implement monitoring programs.

The unique nature of this review required that we coordinate closely with representatives of various FDIC divisions. We surveyed a large sample of FDIC managers from every division to solicit their opinions and ideas. We held additional discussions with Legal Division, IT, and administrative managers. In a spirit of partnership we held meetings to discuss together the issues of implementing and managing an Internet monitoring program.

As a result of our work, we suggested a balanced approach to a revision of the Corporation's employee Internet use policy. Legal and social issues call for a clearly worded, well communicated, and consistently enforced policy. We specifically suggested enhancements to the current communication strategy. We suggested that inappropriate use of the Internet be discussed in future Ethics and User Security training sessions that are conducted annually for each employee. Also, we suggested that on-line banners be used that will remind users each time they use e-mail and the Internet that their use is not private and can be monitored.

Our work had significant impact. The Corporation sent a global e-mail detailing proper use of the Internet and e-mail, developed an on-screen banner for every initial log-on to the network, and implemented blocking devices. Additionally, the Corporation is now including Internet use in its corporate-wide security training and in annual employee ethics training and is modifying its written Internet and e-mail use policy.

OIG Addresses Emerging FDIC Internet and Intranet Privacy Concern

Privacy has been and continues to be of significant concern to the public and the Congress. Recent studies have shown that privacy is the number one concern of those using the Internet. Given the heightened concerns about online privacy and, in particular, the disclosures made about information collected from visitors to Web sites, we conducted a review of the FDIC's Web site disclosure statements.

We concluded that the Corporation's external Web site *Privacy Policy Statement* was substantially consistent with applicable guidance, which was noteworthy because the FDIC's statement was developed and posted on its external Web site in 1998–before any requirement to do so. In response to our recommendations, the FDIC took or planned the following actions:

- **The Office of Executive Secretary added Privacy Act notices to 2 Web pages and requested that the Division of Information Resources Management (DIRM) create hyperlinks to the *Privacy Policy Statement* on 11 Web pages.**

DIRM agreed to:

- **Implement a security notice on the FDIC's Internet site to reflect new guidance being developed by the Chief Information Officers Council.**
- **Develop guidance for Internet Coordinators and Webmasters to ensure awareness of Office of Management and Budget privacy-related disclosure requirements and modify guidance for reviewing information before it is posted on the FDIC's Internet Web site.**
- **Develop and post a notice for the FDIC's internal network addressing employee privacy to enhance existing policies.**

Lastly, we recommended, and the Corporation agreed to form, a working group to study and prepare a report on the need for establishing a focal point in the Corporation for privacy issues. We concluded that such a focal point was important to the FDIC because the Corporation must deal with privacy on several levels–as a government agency, regulator of financial institutions, and employer.

economy and government. The review consists of four phases. Phase I relates specifically to planning activities related to protecting cyber-based infrastructures.

The FDIC Legal Division has opined that PDD 63 is not legally binding on the FDIC, given the FDIC's status as an independent agency outside of the Executive Branch. However, the FDIC has indicated that it supports the President's goal of safeguarding critical national infrastructures and has voluntarily included the principles of PDD 63 while developing its Information Security Strategic Plan. In view of the Legal Division's opinion, we focused our efforts on comparing the FDIC's Security Plan, security policies, and security procedures with the provisions of PDD 63.

We determined that the FDIC has initiated or implemented actions to address the general requirements of PDD 63. Because the FDIC has indicated that it is not bound by PDD 63, was not designated as a Tier 1 or Tier 2 agency[2] by the directive, and has not identified any of its physical or cyber-based systems as essential to the minimum operations of the economy and government, we have determined that we will not participate in subsequent phases of the PCIE project. However, our efforts during Phase I of the project identified one area of security activities that we believe can benefit from further audit involvement.

The FDIC has instituted a risk management program and is in the process of identifying its major systems and scheduling independent security reviews of these systems to ensure effective security and identify needed security improvements, as required by OMB Circular A-130. However, we believe that the Division of Information Resources Management's (DIRM) initiatives in this area can benefit from an enhanced risk management program that would include a modified program structure, increased coordination within DIRM, and increased support from DIRM's clients. As a result, we have conducted an audit of the IT Security Risk Management Program. The objectives of our audit were to provide assistance to DIRM's information security staff in a real-time mode and an evaluation of the process used to identify the FDIC's major systems and the effectiveness of resulting sensitivity assessments, independent security reviews, security plans, and management accreditation of general support systems and major applications. We will

[2]PDD 63 designates specific agencies as having responsibility for protecting particular infrastructures. These agencies are described as being Tier 1 or Tier 2 agencies depending on the level of their responsibility.

report the results of this work in our next semiannual report.

OIG Examines Corporate Request for Expenditure Authority—OneNet Wide Area Network

The OIG provided the Chief Financial Officer (CFO) with observations and issues after reviewing DIRM's Request for Expenditure Authority for the OneNet Wide Area Network. The request proposed to consolidate existing wide area network and long distance voice and video contracts into one contract to employ technology that would enable the FDIC to process data and voice communications over a single network. The request also discussed the need for increased network capacity that would be provided through OneNet at all levels of the Corporation to support new technologies and applications. The observations and issues addressed the need for the network and increased capacity to meet the FDIC's mission-related and business objectives, the cost of the OneNet Network compared to the existing telecommunication contracts, and alternatives considered and available for accomplishing the objective of the proposed contract.

Our memorandum to the CFO also included other questions and issues we believed were relevant to the request for expenditure authority that involved the procurement of the services and preparations for effective implementation of this new technology. The FDIC's Board of Directors approved the request on July 27, 2000 following a presentation by the Director, DIRM, that clarified information in the request related to issues and observations that we discussed in our memorandum.

This review afforded us the opportunity to work proactively with the Corporation and to assist the Corporation in its decisionmaking process. The CFO indicated the information we provided would be helpful in reviewing the need for, and costs associated with, OneNet and the other initiatives discussed in the request when they are proposed during future budget processes.

Ensuring Sound Controls and Oversight of Contracting Activities

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

The FDIC recognizes that sound controls and oversight of contracting activities are important. To guard against the risk of possible fraud and abuse in this area and in response to the OIG's suggestion, the FDIC plans to add a goal regarding contractor oversight to its Annual Performance Plan, which is done in accordance with the Government Performance and Results Act. (See discussion on pages 25 - 26.) Also, the Corporation recently revised its Acquisition Policy Manual, and the Office of Internal Control Management has been participating with the OIG to provide joint briefings to contracting officers and others on contracting risks and proper controls to guard against those risks.

Projections of year 2001 non-legal contract awards and purchases total 2,500 actions valued at approximately $340 million. One of the most active areas of contracting in the Corporation regards information technology. As of September 30, 2000, there were more than 269 active information resources management contracts valued at approximately $347 million that had been awarded in headquarters. Approximately $143 million of this expenditure authority for active contracts had been spent and $204 million remained to be used.

During the reporting period, the OIG continued to focus on auditing contracts and agreements, especially DIRM service contracts. We issued two audit reports on IT services contracts and had four ongoing as of September 30, 2000. The purpose of these audits is to determine whether billings were allowable and supportable and identify any oversight issues needing attention. In the case of the contractors under audit, the FDIC procured IT services from vendors that were prequalified under the General Services Administration Federal Supply Service's IT Multiple Award Schedule program. We issued an advisory memorandum to call attention to recurring oversight issues and we will be performing additional work in this area in the future.

OIG Reviews Two Contractors Hired Under General Services Administration Program

The OIG audited the billings of two contractors, CIBER, Inc., and COMSO, Inc., that the FDIC obtained by using the General Services Administration's pre-established contracts for information technology services. In both instances the OIG found that although billings generally were supported, they were not always allowable. The unallowable charges included those related to employee qualification issues, excessive or unauthorized subcontractor markups, billing rates, volume discounts, and unallowable expenses. Questioned costs totaled $587,621 for CIBER, Inc., and $260,259 for COMSO, Inc. In addition, the OIG identified several contract administration issues that both the Division of Administration and DIRM are addressing.

OIG Identifies $1.26 Million for Intrastate Surcharge and Other Compliance Issues with MCI Voice and Video Contract

We completed the second in a series of evaluations associated with the

FDIC's Voice and Video Long Distance Services Contract with MCI WorldCom, Inc. (MCI). This evaluation addressed whether MCI properly billed the FDIC for services during the first 39 months of the contract. We again had the opportunity to work closely and in cooperation with the Division of Administration's Acquisition and Corporate Services Branch (ACSB) and DIRM staff to achieve substantial savings for the Corporation.

Overall, for this evaluation we identified almost $1.26 million in charges that were not supported, consisting of $1.24 million in questioned costs and $18,000 in funds put to better use. Most of those charges were associated with a surcharge that MCI billed that was not included in the original contract or in MCI's tariff. Further, we identified unsupported charges associated with directory assistance and calling card calls. MCI generally charged the FDIC appropriately for other long distance services that we reviewed. We also concluded that MCI did not comply with what we understood to be the intent of the contract price warranty clause—to keep the Corporation's long distance rates competitive for the duration of the contract. We did not recommend that FDIC pursue recovery of those charges because several factors limited the FDIC's ability to legally enforce the price warranty.

ACSB staff discussed our preliminary findings with MCI in June 2000. In late August 2000, MCI proposed a settlement valued at almost $1.7 million. Specifically, MCI agreed to: (1) issue an $882,640 credit to the FDIC related to the unsupported surcharges (questioned costs), (2) correct the FDIC's contract rate for directory assistance charges, and (3) provide lower rates to the FDIC under a separate Wide Area Network (WAN) contract. We estimated the latter two actions would reduce FDIC's contract cost by at least $818,345 over the remaining term (funds put to better use) of the Voice and Video and WAN contracts.

Health Benefits Program Administrator Overcharged the FDIC $822 Thousand

Although we concluded that the FDIC's third-party administrator of its health benefits program, Aetna U.S. Healthcare, generally administered the program within the terms of the contract, we determined that Aetna overcharged the FDIC $822,307 for administrative fees, incorrectly processed claims, and overpaid claims that Aetna did not collect as contractually required. The Division of Administration has agreed to pursue the overcharged amount. An independent professional services firm performed this audit under the direction of the OIG.

We also suggested that the FDIC settle with Aetna on an unresolved recommendation from a 1996 OIG Aetna audit involving amounts due the FDIC for provider withholdings. Finally, we suggested that the FDIC make arrangements with Aetna to ensure enrollee health claim records and supporting documentation are maintained as long as statutorily necessary in the event of disputes or lawsuits. The Division of Administration was receptive to both of our suggestions and agreed to disallow the overcharges.

Addressing Human Capital Issues

In past semiannual reports we have cited the changing environment at the FDIC as a major issue facing the Corporation. We have noted that since 1994, as the work emanating from the banking and thrift crises has declined and continued consolidation of the financial services industry has occurred, the FDIC has accordingly reduced its workforce substantially. The workforce has fallen from a high of about 15,600 in mid-1992 to 6,733 as of September 30, 2000. Much of the decline from the past semiannual reporting period is attributable to the June 30, 2000 closing of the Hartford Office. FDIC staffing is expected to decline to approximately 6,549 positions by the end of 2000, down from the 7,265 positions authorized for the end of 1999. In addition to reductions in the size of the workforce, as the Corporation's needs have changed, employees have been relocated to best serve those changing needs.

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

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

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

The diversity plan includes proposed actions in six areas:

- Building commitment and developing awareness,

- Enhancing the corporate recruiting program,
- Creating developmental opportunities,
- Enhancing the internal and external selection processes,
- Addressing benefits and workplace issues, and
- Monitoring progress and establishing accountability.

Focusing on the Corporation's Most Important Asset

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

As a first step, GAO proposes a five-part self-assessment framework:

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

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

As discussed earlier in this section, to address the changing environment at the FDIC, the Corporation has begun taking a closer look at its approach to doing business. With this approach, the Corporation is looking upon human capital as a corporate-wide issue and is working to design associated strategies and practices to directly support the achievement of its mission, strategic goals, and core values. A key activity in this regard is the Corporation's recent Gallup survey of its employees. Through this Organizational Assessment Survey, the Corporation hopes to gain valuable insights that link employee opinions to workplace engagement and accomplishment of the FDIC's mission.

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.

The OIG has confirmed with the Corporation's CFO that a review of the FDIC's efforts to manage human capital would be beneficial. The FDIC's Personnel Services Branch is working with a vendor to define a process for developing a human capital strategic plan. The Personnel Services Branch has requested that the OIG wait to begin work until the contractor has provided feedback related to human capital issues. The OIG plans to pursue further work once that has been accomplished.

OIG Joins OICM in Follow-up Review of the FDIC's Equal Employment Opportunity Complaint Process

During the reporting period we participated in a review that touched on a human capital-related issue. The OIG and the Office of Internal Control Management (OICM) conducted this review as a follow-up to previous reviews that our offices performed in 1998. The review examined the extent to which the Office of Diversity and Economic Opportunity (ODEO) had implemented recommendations and whether ODEO had improved its case processing time frames since 1998.

We found that ODEO had made a number of positive changes to the discrimination complaint process since the 1998 review that included: implementing a more reliable case management and processing system, hiring new managers with equal employment opportunity (EEO) experience from other agencies, and developing improved procedures. ODEO had fully or partially implemented 27 of the 43 recommendations we reviewed that resulted from the prior reviews. Nine of the 16 recommendations that were not implemented related to establishing performance expectations.

With regard to processing time frames, ODEO's time frames for open complaints in the final agency decision stage improved significantly since the 1998 OIG review – from an average of 620 days to 175 days. The elapsed day average for the issuance of accept/dismiss letters also improved. However, overall case processing statistics and time frames for the various complaint process stages continued to exceed

ODEO and federal EEO requirements and federal sector averages.

The results of this review assisted management in determining the appropriate reporting of the EEO complaint process in the Chief Financial Officers Act report. It also served as a revised baseline from which ODEO could continue to make strides in improving the process. Further, the partnership of our Office of Congressional Relations and Evaluations and OICM in performing this review provided valuable insight into each of the two offices' review processes.

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 its mission and vision and articulate goals and objectives for the FDIC's three major program areas: Insurance, Supervision, and Receivership Management. The plans focus on four strategic results that define desired outcomes identified for each program area. The four strategic results are: (1) Insured Depositors Are Protected from Loss Without Recourse to Taxpayer Funding, (2) Insured Depository Institutions Are Safe and Sound, (3) Consumers' Rights Are Protected and FDIC-Supervised Institutions Invest in Their Communities, and (4) Recovery to Creditors of Receiverships Is Achieved. Additionally, the basic operating principle for the FDIC is the effective management of strategic resources. Through its annual performance reports, the FDIC will be accountable for reporting actual performance and achieving strategic results, which are closely linked to the major issues discussed in this semiannual report.

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

OIG Formulates Results Act Review Plan

On October 7, 1998, the Congressional House Leadership sent a letter to the Inspectors General of 24 executive agencies requesting that they develop and implement a plan for reviewing their agencies' Results Act activities. The Results Act review plan would be submitted as part of the OIG's semiannual reports to the Congress (and updated at least annually thereafter) and would examine (1) agency efforts to develop and use performance measures for determining progress toward achieving performance goals and program outcomes described in their annual performance plan and (2) verification and validation of selected data sources and information collection and accounting systems that support Results Act plans and reports. Findings and recommendations from Results Act reviews would be included in each subsequent semiannual report. The Congress attaches great importance to effective implementation of the Results Act and believes that Inspectors General have an important role to play in informing agency heads and the Congress on a wide range of issues concerning efforts to implement the Results Act. 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 Results Act review plan to help ensure that the Corporation satisfies the requirements of the Results Act and maintains systems to reliably measure progress toward achieving its strategic and annual performance goals. Our review plan consists of the following three integrated strategies:

- **Linking Planned Reviews to the Results Act.** We will link planned reviews to corporate strategic goals and annual performance goals and provide appropriate Results Act coverage through audits and evaluations. As part of this strategy, 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.

Representative examples of OIG results and reviews during the reporting period that are linked to Result Act issues and concepts follow:

- In a survey of new failed bank resolution methodologies being developed by the DRR, we noted that DRR is making steady progress in its efforts to make the resolution process more effective, efficient, and diversified. Additionally, in conducting our survey we identified several issues that we believe DRR should be mindful of in developing and implementing new strategies. Addressing these issues should assist the Corporation in meeting its 2000 annual performance goal related to improving the FDIC's core business processes and responding to changes in the financial industry.

- As part of our program of targeted verification reviews, we are currently evaluating the degree to which FDIC program offices are verifying and validating information presented in FDIC performance reports. The intent of this review is to evaluate the corporate-wide processes and practices used to verify and validate performance data. The review will be completed and its results reported in the next semiannual period.

OIG Reviews FDIC 1999 Program Performance Report

During this reporting period, we provided Senator Fred Thompson, Chairman of the Senate Governmental Affairs Committee, with the results of our analysis of the FDIC's 1999 Program Performance Report. Senator Thompson had requested that the GAO and the Inspectors General (IGs) of 24 major federal departments and independent agencies review and analyze the fiscal year 1999 performance reports for their department or agency. The FDIC was not one of the 24 agencies specifically included in Senator Thompson's request; however, we were aware of his interest in having similar analyses done for other departments and agencies. Consequently, we analyzed the FDIC's performance report in the same general framework as requested in the letter to the IGs. Our analysis was provided to Senator Thompson, other congressional committees, OMB, and FDIC management for their use and consideration.

Senator Thompson's letter referenced key management challenges that he had previously asked IGs to identify in their agencies and requested that these management challenges be used as a framework for the requested OIG analysis. For the FDIC, we identified these management challenges as "major issues" facing the Corporation and have discussed these major issues in our semiannual reports to the Congress. For purposes of our response, we analyzed the FDIC's 1999 Program Performance Report in the framework of the seven "major issues" identified in our March 2000 *Semiannual Report to the Congress*.

We found a close relationship between the FDIC's annual goals and the OIG's major issues (management challenges). Our analysis indicated that 30 of the Corporation's 31 annual performance goals related directly to one of the seven major issues identified in our March 2000 semiannual report and that the FDIC has annual goals in five of the major issue areas. We also found a close relationship between the annual goals and mission-related strategic results included in the FDIC's strategic plan. Our response noted improvements the Corporation has made in the 2000 performance plan and included several suggestions for the Corporation to consider to further improve the value and usefulness of its performance plans and reports. These suggestions include considering more specific goals or targets for the FDIC's critical priorities and emerging risks, considering developing an annual goal or goals related to the OIG-identified major issue area of contractor oversight, and including a discussion of data quality in future performance reports.

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.

Summer interns assist in accomplishing the OIG's mission.

GAO/OIG's Successful Financial Statement Audit Partnership Continues to Evolve

W. Kevin Hainsworth (l) and Ross Simms (r) lead the OIG's financial statement audit team.

Sharon Spencer, member of the OIG's financial statement audit team.

Where have we been? **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. By 1998, GAO began to rely on the OIG's work for designated audit segments. All of the regional work (performed in the Dallas regional office) and selected headquarters segments were conducted under GAO's direction. Guided by professional standards, GAO maintained full responsibility for the audits and continued to approve key planning documents, work programs, time frames, and final work products for the OIG-designated areas. For its part, the OIG was responsible for implementing and conducting the work.**

Where are we now? **The process of transferring full responsibility for the annual financial statement audit from GAO to the FDIC OIG continued during the reporting period. The joint team issued its final report on the 1999 statements to the Corporation in May 2000. [*Federal Deposit Insurance Corporation's 1999 and 1998 Financial Statements* (GAO/AIMD-00-157, May 26, 2000).] Significantly, the Corporation received an unqualified opinion from the auditors. In August 2000, the OIG's Deputy Assistant Inspector General from the Dallas office reported to Washington to join and lead headquarters staff in conducting the 2000 audit. For the 2000 audit, the OIG will have full responsibility for 16 of 22 components. The entire team is committed to ensuring that in addition to focusing on the fairness of the statements in presenting the corporate financial results, the team's efforts will also lead to process improvements, influence management and policy decisions, and further promote public confidence in the Corporation.**

Where are we going? **For the ongoing audit, the team has adopted a "continuous audit" methodology for selected areas in headquarters and Dallas. As part of this approach, the team will report the results of fieldwork and testing simultaneously with, or a short time after, the occurrence of testing. Selected areas include net receivables, receivership receipts and disbursements, investments, operating expenses, and some securitization-related transactions. The team plans on performing monthly analyses of its results that will then be communicated to FDIC management. By presenting the client with more current and immediate feedback on issues directly affecting the Corporation, we are confident we can add more value as part of the financial statement audit efforts. The team's goal is to deliver its final report for the 2000 audit to the Corporation by the end of April 2001, thereby enhancing overall timeliness by 1 month.**

Special Note: ***The OIG sincerely thanks Jeanette Franzel, Assistant Director, Corporate Audits and Standards, U.S. General Accounting Office, for the leadership role she has played on the financial statement project over the past 4 years.***

Investigative Statistics

Judicial Actions:	
Arrests	2
Indictments/Informations	15
Convictions	11
Actions Involving FDIC Employees as a Result of Investigations:	
Suspensions	1
Resignations	2
Actions Involving Parties Affiliated with Financial Institutions as a Result of Investigations:	
Removals	1
OIG Investigations Resulted in:	
Fines of	$ 182,500
Restitution of	1,001,999
Monetary Recoveries of	3,493,381
Forfeitures based on Asset Seizures	6,031,569
Total	**$10,709,449**
Cases Referred to the Department of Justice (U.S. Attorney)	22
Referrals to FDIC Management	11
OIG Cases Conducted Jointly with Other Agencies	52

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 also to deter others from participating in similar crimes.

Joint Efforts

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

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), Internal Revenue Service (IRS), Secret Service, and other law enforcement agencies in conducting investigations of joint interest.

In recognition of the success that has been achieved in one case through the combined investigative and prosecutive team approach, two OIG Special Agents were among those honored during this period for their outstanding contributions in the investigation of bank officials at the now defunct First National Bank of Keystone, Keystone, West Virginia. The awards were presented at the annual law enforcement awards ceremony of the U.S. Attorney's Office for the Southern District of West Virginia. As described in further detail below, the investigation is being conducted by a multi-agency task force and resulted in the convictions of two bank officials on charges of obstructing a bank examination during this period.

Results

During the reporting period, OI opened 22 new cases and closed 35 cases, leaving 149 cases underway at the end of the period. Our work during the period led to either indictments or criminal charges against 14 individuals, one of whom was indicted on 2 separate charges. Eleven defendants were convicted during the period. Criminal charges remained pending against 13 individuals as of the end of the reporting period. Fines, restitution, and recoveries stemming from our cases totaled over \$10.7 million. Our investigations involving FDIC employees resulted in a suspension of one employee. Additionally, two employees resigned while under investigation. Based on information developed during a criminal investigation conducted by the OIG, the FDIC also issued an order prohibiting the former Executive Vice President of a financial institution from participating in the conduct or affairs of any federally insured depository institution. The following are highlights of our investigative activity over the last 6 months.

Fraud Arising at or Impacting Financial Institutions

Former Bank Officer Pleads Guilty to Obstructing Bank Examination and Bank Customer Charged with Conspiracy to Defraud Bank

The former Executive Vice President of Murphy Wall State Bank, Pickneyville, Illinois, pleaded guilty to a one-count Information charging him with obstructing the examination of a financial institution. In addition, the former Executive Vice President of the bank 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. In a related action on the same case, the owner of a company that was a customer of the bank was indicted on several charges relating to an alleged conspiracy to defraud Murphy Wall State Bank by obtaining approximately \$6 million in loans through false pretenses and representations. The disposition of the charges against the company owner is pending the results of his trial, which was scheduled to begin after the current reporting period ended. The OIG's participation in this investigation, which is being conducted jointly with the FBI, was initiated at the request of the U.S. Attorney's Office, Southern District of Illinois.

Two Bank Officials Receive Maximum Sentence for Obstructing a Bank Examination and/or Conspiracy

Following her conviction in April for obstructing a bank examination and conspiracy, the former Senior Executive Vice President of the now defunct First National Bank of Keystone, Keystone, West Virginia, who also served as President of Keystone Mortgage Company, a subsidiary of the bank, was sentenced in July 2000 to 57 months' imprisonment and fined \$100,000. A second bank official, the former Executive Vice President of the mortgage company who was also convicted at the trial on charges of obstructing a bank examination, was sentenced to 51 months' imprisonment and fined \$7,500. Following their incarcerations, both will also be placed on 3 years' probation. The defendants received maximum sentences, in part, for lying under oath. This is part of an ongoing case that is being investigated by a multiagency task force that includes Special Agents of the FBI, FDIC OIG, and IRS.

As we reported previously, the charges against these officials were based on their actions to obstruct an examination of the bank by the Office of the Comptroller of the Currency that ultimately culminated in its closure on September 1, 1999. Among the actions taken to obstruct the examination was the burial of several dumptruck loads of bank documents and microfilm on a ranch owned by one of the convicted officials and her husband. A search of the ranch by investigators resulted in the recovery of buried bank records that filled 370 file boxes. The obstruction investigation and a corresponding investigation of the circumstances leading to the failure of the bank are being conducted by a multi-agency task force comprised of Special Agents of the FBI, FDIC OIG, IRS, U.S. Postal Inspection Service, and U.S. Department of Treasury OIG.

Illinois Resident Whose Company Serviced Credit Cards for 10 Banks Pleads Guilty to One Count of Bank Fraud

Following his indictment in May 2000, an Illinois resident who operated a company that serviced credit cards for 10 banks located in Illinois, Ohio, and New York pleaded guilty in June to one count of bank fraud. The FDIC is the primary regulator of 3 of the 10 banks. The indictment and corresponding plea involved charges 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. This case was jointly investigated by the OIG and FBI.

Dallas Banker and Two Dallas Residents Plead Guilty to Conspiracy to Submit False Loan Applications to a Financial Institution

Two Dallas residents who had been employed as car salesmen pleaded guilty to conspiracy to submit false loan applications to the FDIC-insured Comerica Bank. A third defendant who had been employed at the Wynnwood Center branch of Comerica Bank also pleaded guilty to a charge of having made false entries in the records of the bank.

As previously reported, in February 2000, the defendants were charged in an indictment with conspiring to defraud Comerica Bank by submitting and causing to be submitted false information to influence the bank to approve car loans under the Community Reinvestment Act Automobile Purchase Loan Program. The program was instituted to help low- to moderate-income individuals with little or no established credit histories obtain automobile financing. The three defendants were alleged to have falsely represented loan applicants' social security numbers to Comerica Bank and supplied fictitious credit references with the intent to deceive the bank relative to the applicants' credit histories. As described in the indictment, the two salesmen told individuals with poor credit histories that they could obtain financing from Comerica Bank if they would purchase automobiles through them. Additionally, the salesmen were alleged to have submitted to the bank documents through the branch employee that falsely inflated each automobile purchase price for the purpose of deceiving the bank about the amount of the downpayment, if any, made by the applicant. The loan applications submitted were also alleged to have contained false personal information, false credit references, and false social security numbers. This case was jointly investigated by the OIG and the FBI.

Former Senior Vice President/Director and Former Internal Control Officer of Bank Plead Guilty to Misapplication of Funds and Embezzlement, Respectively

A former senior vice president and director of Fort Gibson State Bank, an FDIC-insured bank in Fort Gibson, Oklahoma, was charged and pleaded guilty to one count of misapplication of funds. He was sentenced to 3 years' probation. In his plea agreement, the Senior Vice President and Director confessed that while employed at the bank, he had falsified entries in the computerized records of the bank. He also confessed that he had made unauthorized withdrawals from custodial accounts for his own benefit and to make payments on past due loans held by the bank. The unauthorized withdrawals were intended to conceal loan delinquencies from other officers and directors of the bank, the FDIC, and bank examiners. They were also used to make loans to third parties without the bank's knowledge, review, or approval.

Based on information obtained as a part of the same investigation, the former Internal Control Officer of the bank was charged and pleaded guilty to one count of embezzlement. In her plea agreement she confessed that 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. This case was investigated by the OIG and is being prosecuted by the United States Attorney's Office for the Eastern District of Oklahoma.

Owner of Bank of Honolulu Is Arrested for Bankruptcy Fraud

Following a three-count federal indictment for bankruptcy fraud, the owner and former chairman of the FDIC-regulated Bank of Honolulu, Honolulu, Hawaii, was arrested on August 30, 2000. The defendant had filed for bankruptcy protection in 1998, listing $9.3 million in assets and almost $300 million in debts. The indictment alleges that he fraudulently funneled millions of dollars from the sale of a Gulfstream jet to personal bank accounts and did not disclose the transfers to bankruptcy court officials. He is also accused of diverting more than $757,000 in Hawaii state tax refunds from the bankruptcy trustee. Because he is a foreign national who resides in Macau and Singapore, he was arrested while he was in Hawaii attending a meeting of creditors at the office of the bankruptcy trustee. This case is being jointly investigated by the OIG and FBI.

Georgia Resident Sentenced to 18 Months' Incarceration, 5 Years' Probation, and Ordered to Pay $190,000 in Restitution

A case that we previously reported was concluded during this period with the sentencing of the defendant who had pleaded guilty to bank fraud. The Georgia resident, who was a customer of Security State Bank, an FDIC-insured institution in Canton, Georgia, was sentenced to 18 months' incarceration, 5 years' probation, and ordered to pay $190,000 in restitution to the bank. The investigation disclosed that he had deposited two $95,000 checks that he knew to be counterfeit into an account at the bank and later withdrew the funds. This case was jointly investigated by the OIG and FBI and was prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.

Restitution and Other Debt Owed the FDIC

Debtor Arrested for Violating Probation by Failing to Disclose Assets Available to Pay Court-Ordered Restitution

An investigation conducted by the OIG found that a debtor who had stopped making his required restitution payments to the FDIC had several businesses and bank accounts, including an account in New Zealand, that he had failed to disclose to the District of Rhode Island U.S. Probation Office. Further, the investigation found that the individual had laundered income through one of these businesses and placed the proceeds into his children's trust accounts. Using this information, it was determined that the debtor had violated his probation, and he was arrested. Subsequently, the individual admitted to a federal magistrate that he had provided false and misleading information to the U.S. Probation Office and had not disclosed all of his assets on his personal financial statement. The individual also agreed to pay his restitution in full to the FDIC.

FDIC Debtors Pay FDIC over $3 Million in Interest on Past Indebtedness

In April 2000, the FDIC received $3,148,540 from two FDIC debtors in payment of interest that had accrued on debts they previously owed the FDIC. As we reported previously, the debtors paid the FDIC the full principal balance of their debt, which amounted to $6.5 million, in March 2000 following the initiation of an OIG investigation and the issuance of OIG subpoenas for records. The debtors had borrowed these monies in the late 1980s and early 1990s from several banks that subsequently failed in the New England area. As the receiver for the failed banks, the FDIC made substantial efforts to resolve these debts prior to the initiation of our investigation. However, the debtors had made no payments to the FDIC, claiming they were insolvent. During the OIG investigation it was found that the debtors had significant assets at their disposal that they had concealed from the failed banks and the FDIC. The investigation regarding the financial information previously submitted by the debtors is continuing.

Management and Disposition of Assets of Failed Financial Institutions

Contract Auctioneer Sentenced for Embezzling Funds from the FDIC

The prosecution of a Florida auctioneer and his company was concluded during this period when they were sentenced in April following their guilty pleas to embezzling funds from the Corporation, as we previously reported. The auctioneer was sentenced to serve 5 months of confinement, 150 days of home detention, and 1 year of probation and to pay a fine of $75,000. He and his company were also ordered to pay restitution jointly and severally of $118,130 to the FDIC. The company was also placed on probation for 3 years.

As receiver of failed FDIC-insured banks, the Corporation manages and liquidates the assets of failed banks. The Corporation contracted with the two defendants (the auctioneer and his company) to organize and conduct numerous auctions and sales of such assets. Following these auctions and sales, the defendants were required to remit the proceeds, less certain advertising and labor costs and certain credits approved by the FDIC, to the Corporation. The defendants were also required to provide the FDIC with recapitulations that reflected, among other things, the winning bid amounts, items sold, and total proceeds. The investigation disclosed that the defendants (1) submitted fraudulent recapitulations, substantially misrepresenting and underreporting the proceeds, and (2) remitted proceeds based on these recapitulations.

Contractor Agrees to Pay $300,000 Civil Settlement

Based on allegations contained in a civil complaint filed by a private citizen, the Department of Justice and the OIG initiated an investigation of false claims filed by an FDIC contractor for reimbursement of claimed expenses for environmental remediation work at Golden Ocala Golf Course, Ocala, Florida. An investigation determined that the defendant submitted three false invoices and bogus support documents to the FDIC. The submitted documentation purported that the defendant's partnership had paid a nonexistent company $240,000 for work that was actually performed by other companies at a total cost of $51,376. Based on this false documentation, the FDIC reimbursed the partnership $150,000 for expenses. In September 2000 the defendant entered into an agreement wherein he will pay the government $300,000 to settle the civil complaint. The criminal case is pending action by the Middle District of Florida.

Former FDIC Contractor Is Indicted on 38 Counts of Wrongdoing, Including Obstruction of an OIG Audit and Investigation

A former FDIC contractor who had been retained by the FDIC to manage the Shelter Cove R.V. Resort, an FDIC-owned property in St. Cloud, Florida, was indicted 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 subsequent OIG investigation.

According to the indictment, in 1994 the defendant hired a subcontractor to perform repairs to the water and wastewater systems at Shelter Cove. The contractor and subcontractor are alleged to have then established a wastewater treatment company. When repairs were performed at Shelter Cove, the contractor allegedly submitted invoices to the FDIC indicating that the subcontractor, individually, had done the work. The invoices were submitted on letterhead with the subcontractor's name and home address at the top. The contractor paid the subcontractor with checks that were cashed and the proceeds of which were deposited into a bank account belonging to the partnership wastewater treatment company. The contractor later received money from the account. 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. As a result, a total of more than $37,400 in such checks was concealed from OIG agents. Relative to Shelter Cove repairs costing more than $1,000 and thus requiring the provision of three bids to the FDIC, the contractor purportedly also submitted false and forged bids from other contractors to ensure that his own bid would be the lowest.

Former FDIC Loan Servicer Is Sentenced to 5 Months' Incarceration and Ordered to Make Full Restitution of Almost $700,000 for Bank Fraud
After pleading guilty in January 2000 to one count of bank fraud, a former loan servicer for the FDIC was sentenced in July to 5 months' incarceration to be followed by 5 years of supervised probation and to perform 100 hours of community service. Additionally, he was ordered to make full restitution of $693,869.

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

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

Misrepresentations Regarding Investments and Allegedly FDIC-Insured Deposits

Bexar County, Texas, Grand Jury Returns Five-Count Indictment Against Convicted Felon for Securities Fraud and Other Related Crimes and Four-Count Indictment Against Former Bank of America Manager for Conspiracy and Possession of Forged Securities
Based on an OIG investigation, in June 2000, a Bexar County, Texas, grand jury returned a five-count indictment against a convicted felon and San Antonio resident who was the owner of a purported investment company. The defendant was charged with two first degree felony counts of securities fraud and one first degree felony count each of misapplication of fiduciary property, theft, and securing execution of a document through deception. 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.

The defendant essentially sold–through his investment company–certificates of deposit (CD) for thousands of dollars and obtained loans and loan proceeds by pledging CDs sold. Among the charges are that he engaged in fraud by intentionally failing to disclose that he had (1) been convicted of felony theft in 1987 and securities fraud in 1993 and (2) caused to be created six purported Bank of America (BOA) CDs totaling over $500,000 and bearing the names of six individuals and six account numbers when, in fact, the six CDs bearing these account numbers were in the name of his investment company on BOA's records. Additionally, relative to a seventh individual, the defendant is charged with (1) misapplying over $100,000 that he held as a fiduciary on behalf of the individual, (2) unlawfully appropriating over $100,000 of the individual's money, and (3) causing the individual to execute a document by deception affecting over $100,000 of his money.

As a part of the same case, in July 2000, a grand jury returned a four-count indictment against a Texas resident who was formerly employed with BOA Texas, N.A., as a financial relationship manager in San Antonio. The defendant was charged with one count of conspiring with the defendant in the June indictment to unlawfully make and utter and possess forged securities with the intent to deceive another person. Additionally, he was charged with three counts of making and uttering a forged security of an organization with the intent to deceive another individual.

According to the indictment, the co-conspirators told prospective investors, many of whom are elderly, that they had a special arrangement (which they did not have) with BOA. The conspirators told investors that because of the special relationship with BOA, the investors would receive a higher-than-usual rate of interest if they purchased BOA CDs through the conspirators. The co-conspirators would then pledge the CDs as security for loans made to themselves. Allegedly, the former BOA employee (1) gave investors a BOA deposit slip when they invested with the co-conspirators, thereby falsely assuring investors that the CDs with BOA were legitimate; (2) deposited investors' funds into bank accounts owned and controlled by the co-conspirator's company; and (3) created, or had another BOA employee create at his direction, CD records which falsely stated that the account holder was the investor. However, the account numbers shown on the CD records were those of accounts owned and controlled by the co-conspirator's company.

President/Owner of Investment Company Indicted for Securities Fraud and Other Related Felonies

In June 2000, a Bexar County, Texas, grand jury returned a six-count indictment against a San Antonio resident who was the former president and owner of a now defunct investment company. The defendant was charged with one first degree felony count each of securities fraud, sale of unregistered securities, acting as an unregistered securities dealer, theft, misapplication of fiduciary property, and securing execution of a document through deception. In July the defendant was indicted on three additional counts. The second indictment charged the defendant with one first-degree felony count each of misapplication of fiduciary property, theft (of over $100,000), and securing execution of a document through deception. This case was investigated by the OIG and is being prosecuted by the Bexar County District Attorney's Office, San Antonio, Texas.

As essentially alleged in the indictments, the defendant sold–through his investment company–CDs for millions of dollars and obtained loans and loan proceeds by pledging CDs sold. Among the charges were that he engaged in fraud by intentionally failing to disclose that he transferred such proceeds to bank and brokerage accounts of businesses he controlled and used 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. As a result of the case, a combined total of $4.6 million has been recouped from American Bank of Commerce and Wells Fargo Bank, which held the defendant's fraudulently derived CDs as collateral on loans he used to purchase a home, lease exotic cars, and obtain other personal items. These recovered funds will be returned to the victims.

Owner/Manager of Oklahoma City Insurance Agency Pleads Guilty to One Count of Securities Fraud in Excess of $44,000

Following an April 2000 indictment, an Oklahoma resident pleaded guilty in May to one count of securities fraud of more than $44,000. The defendant is the principal owner/manager of an insurance agency located in Oklahoma City, Oklahoma. This case was jointly investigated by the OIG, U.S. Secret Service, and FBI. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Texas.

The indictment charged that the defendant, having been dissatisfied with the profits of his insurance agency and, aided and abetted by others, began seeking high-risk investments that would yield significant returns. The defendant 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, the defendant began advertising the sale of CDs offering high rates of return. He caused mostly elderly individuals to purchase the CDs and wire-transfer their funds to the BOA in Dallas by representing to them that each CD was issued by the BOA 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. In fact, however, the CDs were issued by an entity that the defendant had established 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 sale proceeds was commingled in a single bank account in Dallas, resulting in FDIC insurance of only $100,000 of this 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 high-risk investments that were not FDIC-insured.

North Carolina Man Is Charged with and Pleads Guilty to One Count of Money Laundering

In August 2000, a resident of Charlotte, North Carolina, pleaded guilty to one count of money laundering. The defendant had been charged in July with knowingly conducting and attempting to conduct a financial transaction affecting interstate commerce–the transfer of funds to First Union National Bank, credit card companies, and other entities from a Wachovia Bank account containing fraudulently obtained funds in excess of $1 million. The charges further alleged that in conducting the transaction, the defendant knew that (1) property involved in the transaction represented the proceeds of some form of unlawful activity (wire fraud) and (2) the transaction was designed, in part, to conceal and disguise the nature, location, source, ownership, and control of the proceeds of that activity. This case was prosecuted by the U.S. Attorney's

Office for the Western District of North Carolina and is part of a larger, ongoing case being jointly investigated by the OIG, U.S. Secret Service, and FBI, with much of the work product stemming from the Dallas region.

Other Cases

Information Technology Company Agrees to Pay the FDIC $44,841 for Computer Hacking Incident

A Maryland-based information technology company agreed to pay $44,841 in damages to the FDIC for a computer hacking incident. The settlement arose from an incident where an employee of the information technology company used a computer to attempt an intrusion into the FDIC Web site "www.fdic.gov." The intrusion was designed to gain unauthorized access to the Web site and obtain password files. The case was investigated by the OIG and prosecuted by the U.S. Attorney's Office for the Eastern District of Virginia, Alexandria Division.

After the OIG learned of the attempted intrusion, Special Agents from the OIG obtained information that permitted them to identify the source of the attack. The information revealed that the attack had originated from a computer owned by the information technology company. Subsequent investigation revealed that the information technology company had considered seeking a contract to provide Internet security services to the FDIC. An employee of the information technology company launched the hack of the FDIC Web site to determine whether the FDIC's computers were vulnerable to a series of well-known hacker techniques. The information technology company failed to notify the FDIC of the origin of the hack. As a result, the FDIC sustained economic damage in investigating the hack and re-securing the server. The information technology company cooperated fully with the investigation.

An FDIC Employee Indicted for Using the Name of Another FDIC Employee Is Among the Suspects Charged in Alleged Identity Theft Fraud Scheme

In June 2000, an FDIC employee and four other suspects were indicted in the District of Maryland on one count each of conspiracy and Access Device Fraud (18 U.S.C. 1029). The indictment charges that the conspirators obtained fraudulent identification cards in the names of victims. The victims included employees of the Department of Health and Human Services OIG, including federal law enforcement officers, and employees of the FDIC. The ring used the names of the victims to open credit accounts, obtain goods and services in retail stores, and order merchandise over the Internet. The purchases included such items as gift certificates, jewelry, and electronic equipment such as computers, televisions, DVD players, and cellular telephones.

Aerial view of location where recovered bank records were buried.

Keystone, West Virginia

Buried documents from the now defunct First National Bank of Keystone have been cleaned and inventoried. They now fill more than 370 boxes.

Pictured here is OIG Special Agent Phil Robertson, who is playing a key role in the investigation of the Keystone failure.

Over the past several years the FDIC has adapted its programs and activities to reflect the regulatory needs of a rapidly changing financial industry. To ensure the continued relevance and value of our work, the OIG has also adapted—by realigning our work and critically examining our skills and work processes. To meet the demands of change the OIG has been focusing on our people; our processes; and our relationships within the Corporation, other regulatory and auditing institutions, and the financial industry. Through cycles of learning, change, and self-evaluation, we have firmly established an organization that is committed to improving our work and adjusting to an ever-changing workplace. To keep pace with the industry and ensure that our work remains relevant, we are working to further equip our staff with the skills needed to analyze increasingly complex financial data and utilize new technology. Of special note is a new program we have initiated to develop leadership skills in mid-level managers. Selected individuals will attend training offered by such organizations as the John F. Kennedy School of Government, the Brookings Institution, the Aspen Institute, and the Center for Creative Leadership. We are also continuously examining and refining the processes we use to plan, execute, and monitor our work. In addition, we have cultivated internal and external working relationships that add efficiency and effectiveness and broaden the impact and value of our work.

Valuing Our People

The OIG is committed to improving the quality of our work by giving all staff members opportunities to develop to their full potential, fostering trust and communication, and establishing a workplace that is conducive to excellence. We have several staff involved in the mentoring, new leadership, and aspiring leader programs, which provide opportunities to gain leadership skills in a variety of activities and settings. Some OIG staff are attending FDIC training in areas that go beyond their normal job functions to enhance their understanding and awareness of the different FDIC offices/divisions' roles and responsibilities. A rotation policy was recently issued for moving audit staff among various work units to increase their subject matter expertise and enhance their audit skills. In addition, numerous OIG staff broadened their perspectives by attending professional conferences that addressed such issues as fraud detection, planning and budgeting, financial

IG Gianni with Employee Advisory Group.

During the reporting period, the Inspector General announced the selection of Steve Beard as the Assistant Inspector General for Congressional Relations and Evaluations (OCRE). Steve will serve as the OIG's executive liaison and focal point for congressional matters and those of special interest to the Office of the Chairman. He will also be responsible for managing the evaluation activities of OCRE, which often involve special requests from the Congress and senior FDIC managers.

Newly appointed Assistant Inspector General Steve Beard.

operations, and performance measurement. OIG management also held a workshop on building trust as a key to high performance and enhanced communication. Further, the Inspector General has chosen to focus on "Human Capital" as the primary theme for the OIG's upcoming office-wide conference in 2001. This theme reflects the value that organizations must place on their people—their most important asset.

Recently, we established an OIG Employee Advisory Group that will communicate issues of concern to the Inspector General. We have also participated in the Corporation's Diversity Briefings and Awareness Training and attended diversity celebrations and events. During this reporting period, we participated in the FDIC's Organizational Assessment Survey, which was conducted by the Gallup Organization. The objective of the survey is to establish baselines for each organization in several areas, including general satisfaction with the FDIC, level of employee engagement, and diversity and related issues. The OIG views the assessment as a natural extension of our own efforts to address diversity and create a learning organization within the OIG. We anticipate that the results of the assessment will provide us with additional insights into creating a workplace that allows people to develop to their maximum potential.

Improving Our Processes

During this reporting period we focused on efforts to improve our work processes and the quality and timeliness of our work. Specifically, the OIG revised its approach to audit planning and improved or designed several new systems to manage our work. The Office of Audits developed a new strategic audit approach, which is providing a framework for future annual audit plans, workforce plans, staff rotations, and core staffing submissions. Features of this plan include new strategic areas linked more closely to the Corporation's major program areas–insurance, supervision, and receivership management–and which will more specifically address the Chairman's corporate priorities.

Also during this period, the OIG issued its Annual Performance Plan and Internal Resource Management Performance Plan, both for 2001. These plans help us link our goals and objectives and measure our performance. The mid-year 2000 Performance Report was issued for use by our executives and managers in measuring our progress toward the goals and objectives of these plans.

To better manage our work, we completed the OIG Counsel's new workflow system, which is designed to provide OIG attorneys with an integrated approach to scheduling and managing their activities. In addition, significant progress was made on the Office of Audits' and Office of Congressional Relations and Evaluations' automated working paper project as we finalized our software requirements.

Strengthening Working Relationships

To further improve and add impact to our work, we have cultivated both our internal and external relationships. Through joint efforts, conferences, and meetings, we are more fully coordinating our work within the OIG and FDIC and sharing best practices with other regulatory and audit institutions, aiming to have a broader impact on problems facing the financial industry.

Internally, our efforts have focused on coordination and communication within the OIG and with FDIC management. We have coordinated issue-area planning across OIG office lines. We conduct audit status meetings with corporate management to discuss ongoing and planned audits in each division. In addition, we presented the OIG's perspective on contract oversight issues at a Contract Oversight Summit hosted by the Office of Internal Control Management and at other meetings with contracting officials.

Further, as referenced in our Major Issues section, in light of recent bank failures involving fraud, the OIG and the Division of Supervision (DOS) initiated a joint project to address the role and proficiency of examiners in detecting fraud during safety and soundness examinations. Using a case study, the team looked at how and when examiners and others reacted to potential "red flag" fraud indicators. This initiative responds to DOS's commitment to addressing fraud in its examination process and its training program for examiners. We also participated in the Corporation's Eighth Annual Fraud and Enforcement Conference and provided a session on our work related to fraud at First National Bank of Keystone. In addition, we began a series of scheduled presentations for DOS's Commissioned Examiner Seminars during 2000 and 2001. The presentation provides an overview of the Office of Investigations; a discussion of the October 1999 DOS/Legal/OIG agreement regarding open bank investigations; and informative highlights of several Office of Investigations cases, particularly lessons learned from the Keystone Bank case.

Externally, we collaborated extensively with other audit and regulatory groups. We hosted an annual planning and coordination session with representatives from the other bank regulatory Offices of Inspector General and the General Accounting Office (GAO) to discuss audit work and industry concerns in the bank supervision area. In light of the expanding activities of financial institutions into the securities markets, we also invited representatives from the Securities and Exchange Commission's OIG to participate. Some topics of interest included: agency use of Suspicious

Activity Reports and the Financial Crimes Enforcement Network, financial institution compliance with the Bank Secrecy Act, and the adequacy of Community Reinvestment Act performance evaluations. The OIGs may decide to conduct some of this work jointly to provide a more complete assessment of bank supervision activity among several agencies.

During this reporting period we also met with House Banking Committee staff to discuss Bank Secrecy Act and money laundering issues. The Committee was working to determine the need for possible changes to existing statutes or proposed legislation (H.R. 2896 and S.1663, Foreign Money Laundering Deterrence and Anticorruption Act).

We also presented sessions at GAO's annual Accounting and Auditing Update Conference regarding their multi-year FDIC financial statement audit project that began in 1996. The sessions described how the OIG and GAO formulated a strategic partnership to conduct the annual financial statement audits for their common client, the FDIC. This ongoing collective effort, whose success is derived from a strong cooperative working relationship, was presented as an example of a best practice. The OIG looks forward to repeating similar successes with the Corporation and others in the federal government.

OIG Internal Activities

- Developed a new strategic audit and evaluation approach that provides a basis for future audit plans, workforce plans, staff rotations, and core staffing submissions.

- Issued the OIG's Annual Performance Plan for 2001, which contains 31 specific goals that directly link to the OIG's 4 strategic goals and related objectives. The goals focus on our core audit, evaluation, and investigative activities; professional advisory services; and external communications with the Chairman, the Congress, and other stakeholders.

- Issued the OIG Internal Resource Management Performance Plan for 2001, which contains 16 specific goals related to the management of OIG resources in the areas of staffing, professional standards and internal controls, information technology, communications, legal advice, and administrative services.

- Issued the OIG's mid-year 2000 Performance Report for use as an interim assessment of progress towards our annual goals.

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

- Attended Inspectors General Conference on Implementation of the Results Act regarding the appropriate role of the Inspectors General in the implementation of the Results Act.

- Initiated an internal quality assurance review of the Office of Management and Policy.

- OIG Counsel's office provided advice and counseling, including written opinions, on a number of issues, including computer security and intrusions into government computer systems; payroll and overtime matters; travel regulations; disclosure of information; union-related matters; contracting issues; employee and FDIC Web page privacy issues; and various ethics-related matters.

- Office of Management and Policy issued the final report on its *2000 Customer Satisfaction Survey*.

- Initiated an external peer review of the Department of Justice OIG Office of Audit.

- Participated in the FDIC's Organizational Assessment Survey for the OIG as part of the corporate-wide survey.

- Formed an OIG Employee Advisory Group to communicate issues of concern to the Inspector General.

- Completed OIG Counsel's new work flow software program to provide its users with an integrated approach to scheduling and managing activities.

- Redesigned the OIG's Intranet site, OIGNet, to create a more visitor-friendly environment.

- Selected a group of employees to participate in leadership training sponsored by such organizations as the John F. Kennedy School of Government, the Aspen Institute, the Brookings Institution, and the Center for Creative Leadership.

- Briefed the corporate Operating Committee on results of OIG 2000 Client Survey.

- Honored OIG staff with service awards.

- Hosted 12 college interns from 7 universities. Our program is designed so that these individuals, all with varied backgrounds, put their educational skills and talents to work to help us accomplish the OIG's mission. Interns were guided by mentors and assisted in the Office of Audits, Office of Management and Policy, and Office of Counsel.

- Hosted and shared audit information and practices with Russian visitor, Natalia Vasilieva, head of Internal Audit Services at the Agency for

Restructuring Credit Organizations, a 1-year old banking agency in the Russian Federation that is responsible for restructuring selected banks and liquidating others.

- Met with representatives from the World Bank and the Brazilian government to discuss the background and functions of the Inspector General community and the PCIE.

- Responded to a request by Stephen Horn, Chairman of the Subcommittee on Government Management, Information and Technology of the House Committee on Government Reform, to members of the PCIE to submit examples of fraud, waste, or mismanagement and monetary benefits that the OIG has identified.

- Issued an initial study of OIG training activities from 1997 through 1999 to determine the types of training taken, cost, and number of hours. This information will be used to formulate future training and development opportunities for OIG staff.

- Completed an initial study of OIG workforce specialties and critical skills to identify the knowledge and expertise of the current OIG workforce and propose strategies to acquire needed capabilities going forward.

Visiting Russian auditor Natalia Vasilieva.

IG Gianni (far left) with World Bank and Brazilian government delegation. Also pictured is Treasury IG Jeffrey Rush (far right).

Arlene Boateng (Dallas OIG) poses with Benjamin Hooks, former Legal Counsel to Martin Luther King, Jr. and Hooks' wife, Frances, during leadership training Ms. Boateng attended at the Aspen Institute.

Coordination with and Assistance to FDIC Management

- Joined with DOS in initiating a joint project to address the role and proficiency of examiners in detecting fraud during safety and soundness examinations.

- OIG Deputy Counsel and investigative staff attended the Corporation's Eighth Annual Fraud and Enforcement Conference in Austin, Texas, and presented a session regarding the OIG's work related to First National Bank of Keystone.

- OIG investigators began a series of scheduled presentations for DOS's Commissioned Examiner Seminars during 2000 and 2001. The presentation includes an overview of the Office of Investigations; a discussion of the October 1999 DOS/Legal/OIG agreement regarding open bank investigations; and informative highlights of several Office of Investigations cases, particularly lessons learned from the Keystone Bank case.

- Presented results of our review of FDIC Employee Internet Use to the Corporation's Operating Committee, provided related information to the Audit Committee, and coordinated with corporate officials taking action to address OIG concerns.

- Completed an annual review of the Corporation's Internal Control and Risk Management Program. We concluded that the program, including the evaluation and reporting process, was conducted in accordance with FDIC policy and was consistent with the provisions of the Federal Managers' Financial Integrity Act.

- The OIG and the Office of Internal Control Management conducted a joint review of the Equal Employment Opportunity Complaint Process as a follow-up to previous reviews the two offices performed in 1998.

- Presented the OIG's perspective on contract oversight issues at a Contract Oversight Summit hosted by the Office of Internal Control Management and during other meetings with corporate representatives.

- Met regularly with Office of Internal Control Management to address audit coordination and resolution issues.

- Conducted regular briefings with corporate management to communicate status of all ongoing audit and evaluation reviews.

- Coordinated annual audit planning for 2001 with management from all divisions by soliciting suggestions and holding meetings with management from major program areas.

Table 1:

Significant OIG Achievements
April 2000 – September 2000

Audit Reports Issued	31
Other Audit-Related Products *	14
Evaluation Reports Issued	2
Other Evaluation-Related Products *	6
Questioned Costs and Funds Put to Better Use from Audit and Evaluation Reports	$11 million
Investigations Opened	22
Investigations Closed	35
OIG Subpoenas Issued	18
Convictions	11
Fines, Restitution, and Monetary Recoveries	$10.7 million
Hotline Allegations Referred	15
Allegations Substantiated	6
Allegations Closed	23
Proposed or Existing Regulations and Legislation Reviewed	11
Proposed FDIC Policies Reviewed	36
Responses to Requests and Appeals Under the Freedom of Information Act and Privacy Act	18

*These products relate to OIG work that did not result in formally issued audit or evaluation reports.

Table 2:

Nonmonetary Recommendations

October 1997 – March 1998	52
April 1998 – September 1998	77
October 1998 – March 1999	133
April 1999 – September 1999	66
October 1999 – March 2000	68
April 2000 – September 2000	74

OIG Litigation

During the reporting period, Counsel's Office actively litigated or monitored the progress of 21 matters, including 2 matters that closed during the period. The active matters included 4 personnel actions and 9 actions involving such subjects as the Right to Financial Privacy Act, the *qui tam (whistleblower) provisions of the False Claims Act, and the Bivens doctrine (i.e., alleged tortious conduct by government employees). The other matters are awaiting action by the FDIC or the courts (or other adjudicatory bodies).**

***_Qui tam_ provisions allow for a civil action brought by a private party under the False Claims Act that the government may elect to join as a complainant. If the government proves the case, the party initiating the suit may be entitled to share in any resulting monetary recoveries.**

Table 3:

OIG Review of Proposed or Existing Legislation and Regulations

(April 1, 2000 – September 30, 2000)

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

Legislation

Chief among the legislation reviewed during the reporting period was S.870, the Inspector General Act Amendments of 2000. This bill would, among other things, require annual–rather than the current semiannual–reporting to the Congress, change the matters to be reported, and require external reviews of Inspector General contracting and hiring functions.

In addition to S.870, Counsel's office reviewed numerous other bills and prepared comments, sometimes in conjunction with other components of the OIG, on the following items:

H.R. 4670 and H.R. 5024 – Creating a Federal Chief Information Officer

S. 3030 – Recovery Audits

S. 1993 – Government Information Security Act of 2000

Draft Bill – Reports Consolidation Act of 2000

Comments on Electronic Government Issues

Regulations

The OIG reviewed various regulatory proposals, both internal to the FDIC and those with external application. We commented on the draft versions of the regulations listed below that were issued either by the FDIC or by the FDIC jointly with other agencies. Two of the regulations implement the Gramm-Leach-Bliley Act of 1999, the major banking bill that allows for the restructuring of the financial services industries and addresses various privacy issues, among other things.

Also the FDIC issued draft regulations to implement the Program Fraud Civil Remedies Act (PFCRA). Counsel's office has provided the FDIC with comments on versions of the PFCRA regulations during this and prior reporting periods. (See box on next page.)

Part 343 – Consumer Protections for Deposit Institutions' Sales of Insurance

Final Consumer Privacy Rule

Fair Credit Reporting Act Regulations

Under FDIC's Proposed Regulations, OIG Would Play Key Role in Program Fraud Civil Remedies Act

The Program Fraud Civil Remedies Act (PFCRA), codified at 31 U.S.C. § 3801 *et seq*., is often referred to as a "mini False Claims Act." The Act allows federal agencies to bring civil actions in administrative courts to seek recovery damages and penalties for false claims and statements submitted to the government that resulted in monetary losses of $150,000 or less.

Under the proposed FDIC regulations, the Inspector General is the "Investigating Official" responsible for investigating allegations of false claims and statements made to the FDIC. If the Investigating Official believes an action under PFCRA is warranted, the matter will be referred to the FDIC's "Reviewing Official," namely, the General Counsel. The Reviewing Official determines whether there is adequate evidence to pursue a PFCRA action. Any PFCRA action must receive prior approval from the Department of Justice. The action would then be brought before an administrative law judge. The defendant may appeal an adverse ruling to the FDIC's Board of Directors and, ultimately, to federal court.

Inspector General Testifies Before the Senate Committee on Governmental Affairs

On July 19, 2000, Senator Fred Thompson, Chairman of the Senate Committee on Governmental Affairs, held a hearing to discuss (1) amendments to the Inspector General Act proposed by Senator Susan Collins and (2) statutory law enforcement authority. The FDIC Inspector General, as Vice Chair of the President's Council on Integrity and Efficiency, represented the Inspector General community. His statement provided the community's view on the proposed amendments, a detailed explanation of the need for statutory law enforcement for selected Inspectors General, and a synopsis of other legislative changes. Inspectors General from the Department of Transportation and Office of Personnel Management accompanied the FDIC Inspector General. OMB's Executive Associate Director and Controller and a senior official from the Department of Justice also testified.

Figure 1:

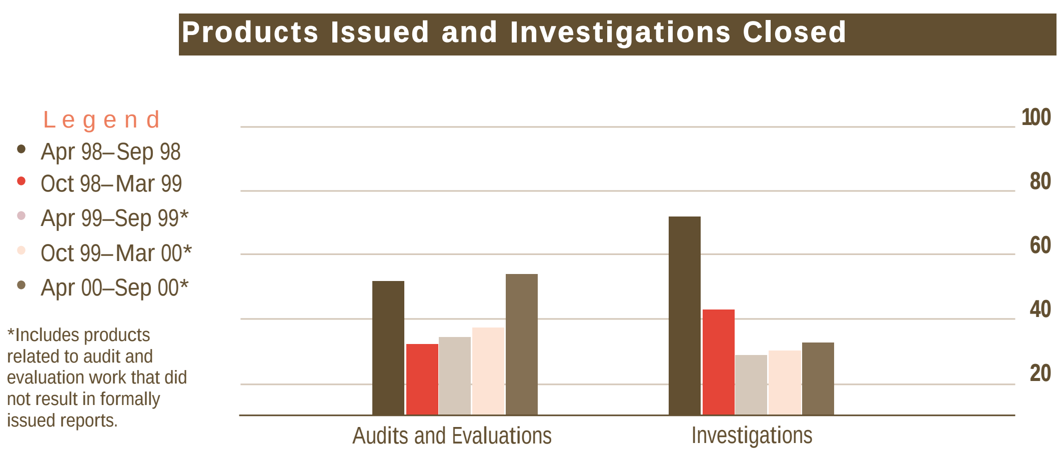


Figure 2:

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

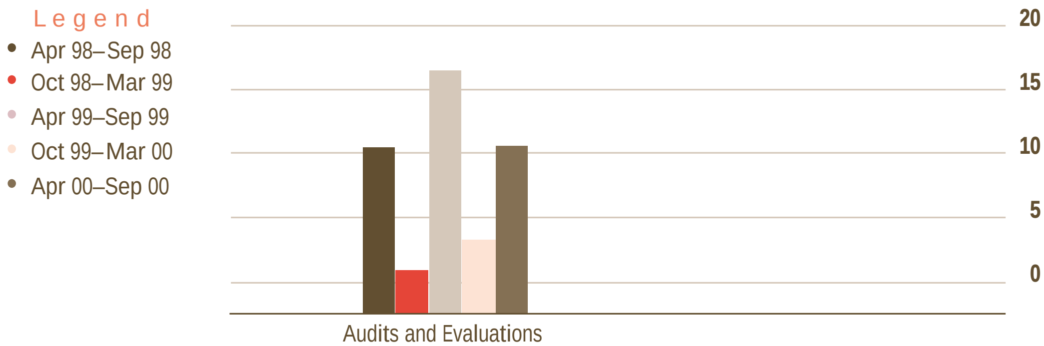
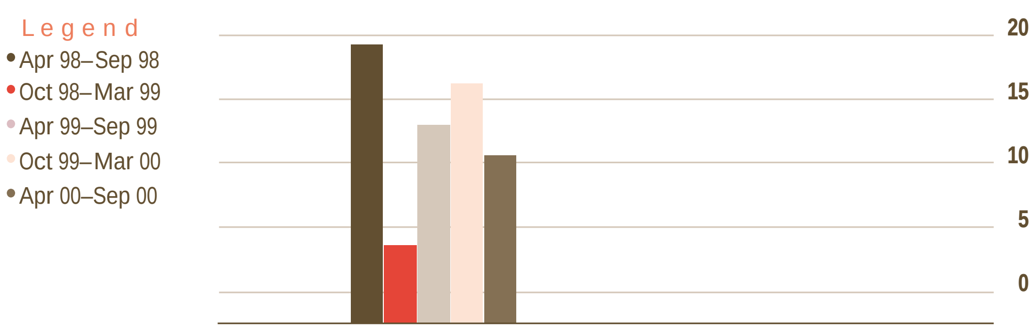


Figure 3:

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



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

Reader's Guide to Inspector General Act Reporting Terms

What Happens When Auditors Identify Monetary Benefits?

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

The Inspector General 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.

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 40 recommendations from 14 reports involve monetary amounts of over $15.8 million. OICM has categorized the status of these recommendations as follows:

Management Action in Process: (19 recommendations from 10 reports)

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

Litigation: (21 recommendations from 4 reports)

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

Table I.1:

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
98-083 **Securitization Credit Enhancement Reserve Fund 1992-CHF** October 2, 1998	3	Disallow $140,161 in supplemental special servicer fees billed early or before any work was performed.
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.
EVAL 99-004 **FDIC Headquarters Copier Administration Program** June 15, 1999	7	Reassess FDIC headquarters color copying requirements and determine whether the FDIC could more economically meet those needs by consolidating copiers or installing more appropriate color copy machines.
99-027 **Limited Scope Audit of Credit Enhancement Reserve Funds for Securitization 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.
99-028 **Personnel Action Processing Controls and Security** July 29, 1999	3	Ensure that the system being developed to replace the Personnel Action Request System incorporates the capability to preserve a permanent image or record of the original request for personnel action and provides an audit trail to changes and additions made to the request.*
EVAL 99-007 **FDIC Regional Copier Program** September 30, 1999	1	Take actions to more closely align the types and placement of equipment in the Dallas Regional Office's and San Francisco Regional Office's copier programs with each region's copying demands.
	2	Analyze the available convenience copier contract vehicles and scenarios and select the ones that provide the best value for the Dallas Regional Office and San Francisco Regional Office.

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

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process (continued)		
99-047 **Data Integrity Controls for Selected DRR Automated Systems** December 21, 1999	1 - 3	Ensure data integrity of systems by strengthening controls, developing interim processes, and clearly defining the roles and responsibilities of the data stewards.
	4	Ensure independent data integrity testing is performed by DRR's Office of Internal Review to validate the results of self-certification programs employed.
	5	Ensure long-term error correction strategies are implemented when error rates exceed established tolerance levels, including identifying systemic causes of errors.
EVAL-00-001 **An Assessment of the Corporation's Efforts to Enhance Energy Efficiency and Reduce Consumption of Natural Resources at Its Headquarters Facilities** February 2, 2000	6	Create an energy management plan to promote energy management and conservation and to measure expenditures and achievements.
00-002 **Management Review of DOS Tracking Systems** February 23, 2000	3	DOS regional and field personnel communicate with their DIRM counterparts during the planning and development of application systems to ensure that developed products are compatible with the FDIC's system architecture.
00-013 **FDIC's Strategic Planning for Information Technology Resources** March 31, 2000	5	Validate the goals and objectives contained in the FDIC's IT Strategic Plan and begin measuring performance against these goals and objectives.
	7	Work with the FDIC's divisions and program offices to ensure that full life cycle costs associated with the FDIC's IT investments are tracked, reported, and compared to initial estimates.
	10	Work with the Technical Committee to implement procedures that require the post-implementation review (PIR) process to include more comprehensive information in the final PIR report regarding a comparison of original and final cost and schedule information.

Table I.1

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

Table I.1

Table I.2: Audit Reports Issued by Subject Area

Audit Report Number and Date	Title	Questioned Costs: Total	Questioned Costs: Unsupported	Funds Put to Better Use
Supervision and Consumer Affairs				
00-016 May 5, 2000	Follow-up Audit of the Implementation of the Risk-Focused Examination Process			
00-017 May 22, 2000	DOS Controls over the Scheduling, Hours, And Reporting Package (SHARP) System			
00-018 May 22, 2000	DCA Controls over the SHARP System			
00-022 June 7, 2000	Material Loss Review - The Failure of Pacific Thrift and Loan Company, Woodland Hills, CA			
00-026 July 7, 2000	DCA's Community Reinvestment Act Examination Process			
Award, Administration, and Oversight of Contracts and Agreements				
00-021 June 2, 2000	Payments to CIBER, Inc.	$587,621		
00-023 June 26, 2000	Pacific Place Renovation Project	$182,231	$26,091	
00-036 August 29, 2000	Payments to COMSO, Inc.	$260,259		
00-037 August 25, 2000	Pacific Place Lease Agreement	$17,602	$17,602	
EVAL-00-005 Sept. 29, 2000	MCI Voice and Video Contract - Intrastate Surcharge and Other Compliance Issues	$882,640		$818,345
Asset Servicing and Liquidation				
00-020 June 7, 2000	Securitization RTC 1992-C4			
00-025 June 30, 2000	Northeast Service Center's Collateral Vault			
00-024 July 6, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-03	$230,678	$206,168	
00-027 July 7, 2000	FDIC's Identification and Classification of Environmentally Impaired Assets			

Audit Report Number and Date	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Asset Servicing and Liquidation (continued)				
00-028 July 21, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-09	$1,350,837	$1,226,316	
00-029 July 21, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-15	$401,684	$310,111	
00-031 August 3, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-07	$665,025	$606,114	
00-032 August 3, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1992-01	$559,462	$494,173	
00-033 August 1, 2000	Residual Interests from Asset Disposition Decisions by Settlement and Workout Asset Teams	$84,124		
00-034 August 21, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-01	$1,443,836	$1,228,660	
00-035 August 21, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1991-12	$878,574	$699,061	
00-041 Sept. 8, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1992-04	$837,696	$709,023	
00-039 Sept. 12, 2000	Dallas Field Operations Branch's Subsidiary Inventory			
00-042 Sept. 12, 2000	FDIC's Payments for Claims Expenses Related to Repurchased Commercial Loans with Environmental Issues	$212,586	$212,586	
00-044 Sept. 20, 2000	Claims Made to the Credit Enhancement Reserve Fund for Securitization Transaction 1992-03	$765,827	$623,869	

Audit Report Number and Date	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Financial and Management Information Systems				
00-030 July 28, 2000	Development of the Electronic Travel Voucher Payment System			
00-038 Sept. 1, 2000	Information Technology Configuration Management Program			
00-043 Sept. 25, 2000	DIRM's Actions to Ensure Quality Products			
Corporate Activities and Administration				
00-015 May 24, 2000	Corporation's Procurement and Travel Credit Card Programs			
00-019 May 25, 2000	Implementation of Corrective Actions			
00-040 Sept. 6, 2000	FDIC Health Benefits Program Administered by Aetna U.S. Healthcare	$822,307		
00-045 Sept. 30, 2000	Semiannual Report of FDIC Board Members' Travel Voucher Reviews - March 2000 through August 2000			
Totals for the Period		**$10,182,989**	**$6,359,774**	**$818,345**

Table I.2

Table I.3: Audit Reports Issued with Questioned Costs

		Number	Questioned Costs	
			Total	Unsupported
A.	For which no management decision has been made by the commencement of the reporting period.	0	0	0
B.	Which were issued during the reporting period.	17▾	$10,182,989	$6,359,774
Subtotals of A and B		**17**	**$10,182,989**	**$6,359,774**
C.	For which a management decision was made during the reporting period.	17	$10,182,989	$6,359,774
	(i) dollar value of disallowed costs.	17	$10,182,989	$6,359,774
	(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

▾ An evaluation report is included in this line. The report questioned $882,640, and all of the monetary benefits were disallowed.

Table I.3

Table I.4: Audit Reports Issued with Recommendations for Better Use of Funds

		Number	Dollar Value
A.	For which no management decision has been made by the commencement of the reporting period.	0	0
B.	Which were issued during the reporting period.	1	$818,345▼
Subtotals of A and B		**1**	**$818,345**
C.	For which a management decision was made during the reporting period.	1	$818,345
	(i) dollar value of recommendations that were agreed to by management	1	$818,345
	- based on proposed management action.	1	$818,345
	- 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

▼An evaluation report is included in this table to reflect funds put to better use amount.

Table I.4

Table I.5

Status of OIG Recommendations Without Management Decisions

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

Table I.6

Significant Revised Management Decisions

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

Table I.7

Significant Management Decisions with Which the OIG Disagreed

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

Table I.8

Instances Where Information Was Refused

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

Products Issued by the Office of Congressional Relations and Evaluations

Product Number and Date	Title
Evaluation Reports	
EVAL-00-004 May 19, 2000	FDIC's Privacy and Security Notices - Requirements and Policy Statements on the Internet and Intranet
EVAL-00-005 September 29, 2000	MCI Voice and Video Contract - Intrastate Surcharge and Other Compliance Issues
Evaluation Memoranda	
EM-00-001 May 19, 2000	FDIC's Equal Employment Opportunity Complaint Process
EM-00-002 July 26, 2000	Request for Expenditure Authority–OneNet Wide Area Network
Congressional Letters	
CL-00-002 April 5, 2000	Internal Controls over FDIC's Enforcement Action Process
CL-00-003 July 6, 2000	OIG Analysis of FDIC's 1999 Program Performance Report
CL-00-004 July 18, 2000	Response to May 30, 2000, Questions About FDIC's Actions Regarding United Savings Association of Texas
CL-00-005 September 29, 2000	Review of Allegations Regarding FDIC's Enforcement Action and Glen Garrett

In the interest of amending the Inspector General Act of 1978 to increase the efficiency and accountability of Offices of Inspector General within federal departments and for other purposes, Senator Collins offered a substitute version of S.870 that was recently placed on the Senate Legislative Calendar under General Orders. This version proposes that rather than continuing the current practice of reporting semiannually, Inspectors General instead prepare annual reports not later than October 31 of each year that summarize the activities and accomplishments of the office during the immediately preceding 12-month period.

While much of the information that would be required in the annual report is currently required semiannually, Senator Collins's proposed S.870 calls for some additional reporting elements.

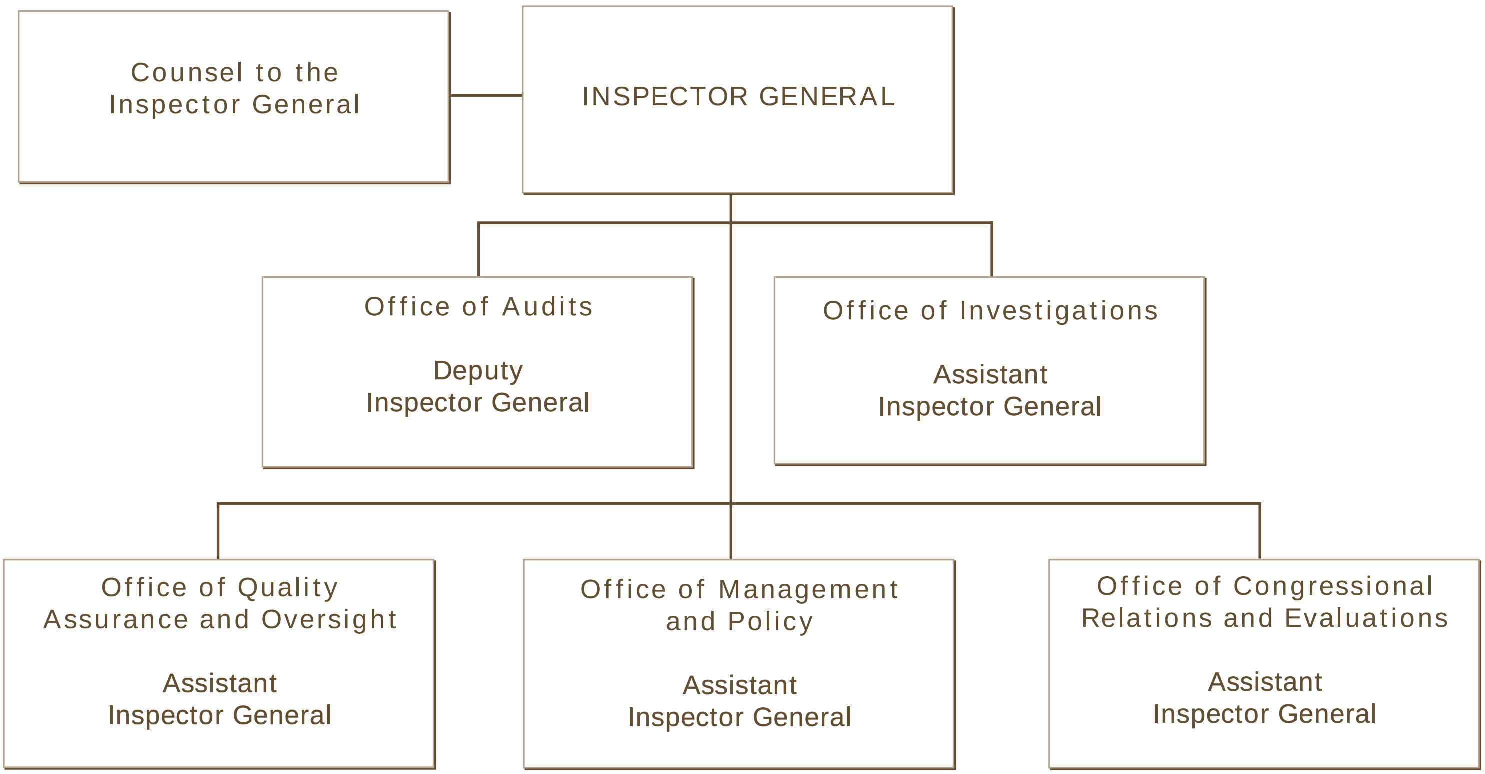
In anticipation of the possible passage of S.870, we are including such additional information in our current semiannual report and hope that it is helpful to those with congressional interest in OIG operations. This additional information falls under three broad categories: (1) Investigative Results; (2) Organizational, Management, and Budgetary Information; and (3) OIG-Awarded Noncompetitive Contract Data.

Investigative Results

5(B)ii	Cases Presented but Declined for Prosecution	
	Criminal declinations during period (presented and declined in period)	11 5
	Civil declinations during period (presented and declined in period)	3 2
5(B)iii	Cases Accepted for Prosecution	
	Criminal prosecution	13
	Civil prosecution	4
5(B)vi	Defendants Acquitted or Charges Dismissed after Indictment	0
5(B)vii	Defendants Sentenced to Terms of Imprisonment	5
5(B)viii	Defendants Sentenced to Terms of Probation	7

Organizational, Management, and Budgetary Information

6(A) Organization chart showing the major components of the Office:



6(B) A statistical table showing the number of authorized full-time equivalent positions segregated by component and by headquarters and field offices.

Number of OIG Permanent Staff by Headquarters and Field Locations for FY 2000*

IG	Counsel	Audit		Investigations		OCRE	OMP	OQAO	Total
		HQ	Field	HQ	Field				
3	7	81	44	21	22	12	20	10	220

*Unless otherwise indicated, staff are located in the OIG's Washington headquarters office.

OCRE (Office of Congressional Relations and Evaluations)
OMP (Office of Management and Policy)
OQAO (Office of Quality Assurance and Oversight)

6(C) The amount of funding received in prior and current fiscal years.

OIG Funding	
FY 1999	FY 2000
$34,666,000	$33,666,000

OIG-Awarded Non-Competitive Contract Data

7(A) The number of contracts, and associated dollar value, awarded on a non-competitive basis by the Office of Inspector General.

The OIG awarded no such contracts during the reporting period.

7(B) With respect to any individual contract valued over $100,000, awarded on a non-competitive basis

i. the name of the contractor,
ii. statement of work,
iii. the time period of the contract, and
iv. the dollar amount of the contract.

N/A.

OIG Staff Honored at PCIE/ECIE Award Ceremony

The OIG is proud of the accomplishments of staff who received awards at the Annual Awards Ceremony of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) held at the Ronald Reagan Auditorium on September 29, 2000. More than 150 nominations were received this year.

The Inspector General nominated Steven A. Switzer, Deputy Inspector General for Audits, to receive a *PCIE Award for Career Achievement.* As noted at the awards ceremony, Steve has played a key role in government and in the Inspector General community in particular over the past 34 years. Steve's achievements reflect a commitment to excellence and a true understanding of the role of the Inspector General community in ensuring the highest degree of integrity and success in government programs and operations.

IG Gianni presents Deputy IG Switzer with Career Achievement Award.

The team of Vernon Davis, Mike Lombardi, Tom Mroczko, Hank Smith, Terry Radigan, John Colantoni, and Fred Gibson conducted an audit of the FDIC's efforts to assess insurance risk at institutions supervised by three other federal banking agencies. This was a politically sensitive audit of an area that is critical to the FDIC's role as insurer for all institutions. The audit identified a need to strengthen the cooperation between the FDIC and the other federal banking regulators, and to improve the effectiveness with which the FDIC carries out this responsibility. The team's work resulted in a significant policy memorandum to the FDIC Chairman, prompted hearings by the House Committee on Banking and Financial Services, and led to legislation being introduced by the Committee Chairman. In recognition of these efforts, the team was bestowed a PCIE *Award for Excellence.*

IG Gianni presents award to Senior Audit Specialist Tom Mroczko, who accepts on behalf of the rest of the team.

An audit team from our Atlanta Office also won an *Award for Excellence.* This team, comprised of Carl Mays, Bud Santee, and Waylon Catrett proposed, planned, and conducted an audit based on their idea that many financial institutions that failed during the banking and savings and loan crisis had assets that were not identified when the institutions

IG Gianni congratulates the Atlanta office team (Waylon Catrett, Carl Mays, Bud Santee).

were closed. The FDIC, as the receiver for the failed institutions, has a fiduciary responsibility to identify and recover all assets of those institutions. By identifying and accessing information available on the Internet, the auditors reviewed 26 state unclaimed property databases and found that 25 of those states were holding assets belonging to the FDIC or its receiverships. The auditors recommended that the FDIC recover $3.3 million from unclaimed property agencies in two states, Florida and California, and that the FDIC identify and recover assets held by other states. Further, auditors found that the state agencies were holding unclaimed assets belonging to more than 40 other federal agencies. Inspector General Gianni issued a letter to the 24 Inspectors General representing the 40 federal departments and agencies about this potential audit area.

Also acknowledged with a *Joint Award for Excellence* from the PCIE/ECIE were Leslee Bollea and Mag Velasquez for their participation on the IGNet Working Team. This team established the "business side" of the Inspector General community's Web site to improve communications among the various Offices of Inspector General government-wide.

Award winners Magdaleno Velasquez and Leslee Bollea are congratulated by IG Gianni.

Finally, the following projects received *Honorable Mention* distinctions:
(1) Scott Miller, Marshall Gray, Jack Talbert, and Sharon Tushin for exemplary work and innovative methods in reviewing, developing, and presenting issues relating to Employee Use of the Internet at the FDIC and (2) Special Agent Ken Meyd for outstanding investigative work leading to the recovery of $9.7 million for the FDIC.

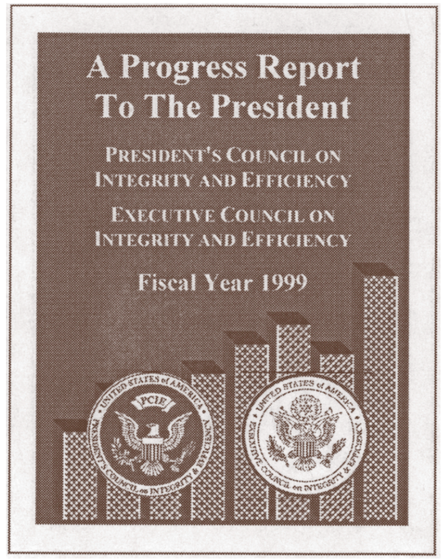
Congratulations to all!

Abbreviations and Acronyms

ACSB	Acquisition and Corporate Services Branch
BOA	Bank of America
CD	Certificate of Deposit
CM	Configuration Management
CFO	Chief Financial Officer
CRA	Community Reinvestment Act
DCA	Division of Compliance and Consumer Affairs
DIRM	Division of Information Resources Management
DOS	Division of Supervision
DRR	Division of Resolutions and Receiverships
ECIE	Executive Council on Integrity and Efficiency
EEO	Equal Employment Opportunity
ETVPS	Electronic Travel Voucher Payment System
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FOB	Field Operations Branch
GAO	U.S. General Accounting Office
IG	Inspector General
IORR	Interest-Only Residual Receivables
IRS	Internal Revenue Service
IT	Information Technology
MCI	MCI WorldCom, Inc.
NESC	Northeast Service Center
ODEO	Office of Diversity and Economic Opportunity
OI	Office of Investigations
OICM	Office of Internal Control Management
OIG	Office of Inspector General
OCRE	Office of Congressional Relations and Evaluations
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PFCRA	Program Fraud Civil Remedies Act
PIR	Post-Implementation Review
PTL	Pacific Thrift and Loan Company
RTC	Resolution Trust Corporation
SDLC	System Development Life Cycle

Offices of Inspector General Contribute to Good Governance

THE INSPECTOR GENERAL COMMUNITY is a very positive and powerful force in the federal government, and the FDIC OIG is proud to be a part of it. The community's *Fiscal Year 1999 Progress Report to the President* issued during the reporting period attests to the excellent results of the member Offices of Inspector General of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in carrying out the mission of the Inspector General established by the Congress in October 1978.



Through hundreds of independent and objective audits, investigations, and evaluations of federal programs and activities, OIGs effectively promoted financial management accountability, helped ensure integrity, minimized risks of fraud and abuse, and achieved results: potential savings of more than $8.2 billion, actions to recover over $4 billion, over 13,000 successful prosecutions (including results from the Postal Inspection Service overseen by the U.S. Postal Service Office of Inspector General), suspensions or debarments of nearly 6,700 individuals or businesses, and over 1,224 civil actions.

The PCIE and ECIE have formed strong alliances within the Inspector General community and, more importantly, with the U.S. General Accounting Office, the Department of Justice, the Office of Management and Budget, and the Congress. Such cooperation is a fundamental component of OIG endeavors and is critical to our success.

The Inspector General community is committed to carrying out the vision of the Congress in establishing Inspectors General, adding maximum value to federal programs and activities, and sustaining the close working relationships that have served us well in the past.

To view the PCIE/ECIE report, please visit **www.ignet.gov** or contact the Department of Education at (202) 205-9787.

OIG Hotline

The Office of Inspector General (OIG) Hotline is a convenient mechanism that 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.**

OIG Hotline

Federal Deposit Insurance Corporation
Office of Inspector General
Hotline
801 17th Street, N.W.
Washington, D.C. 20434

To learn more about the FDIC OIG and for complete copies of audit and evaluation reports discussed in this Semiannual Report, visit our homepage:
www.ignet.gov/ignet/internal/fdic

Designed by FDIC/DOA/ACSB/Design and Printing Unit