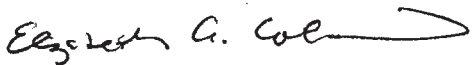




BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

KW

DATE: December 14, 2009  
TO: Board of Governors  
FROM: Elizabeth A. Coleman   
SUBJECT: 2010 Budget Request for the Office of Inspector General

**Action Requested**

Approval of the 2010 budget for the Office of Inspector General (OIG) as follows:

1. An operating budget of \$19,239,055. The budget provides for sixty-one positions, an increase of sixteen positions over the 2009 authorized staffing level of forty-five positions.
2. A capital budget of \$50,000.

**Discussion**

The OIG's proposed 2010 budget will allow us to perform our legislated mandate of conducting audits, investigations, and other reviews to help improve the economy, efficiency, and effectiveness of the Board's programs and operations, and to prevent and detect fraud and waste. The financial crisis has precipitated increased and pressing demands on our office for the foreseeable future, necessitating a 122 percent increase in our budget. In particular, our 2010 operating budget of \$19.2 million provides a total of \$9.7 million for personnel services, which includes the cost to phase in sixteen new positions during the year and to fully fund the eight positions added during the 2008-09 mid-biennium process. The 2010 operating budget also provides \$7.5 million for increased contractual professional services. Collectively, these new positions and contractual services are critical for us to conduct legislatively-mandated, material loss reviews of Board-supervised, failed banks; risk-focused audits related to lending facilities and special programs, and new bank and financial holding companies; and a growing investigative workload in areas such as hotline complaints, bank fraud, money laundering, and mortgage fraud. Effectively carrying out this work requires travel to Reserve Banks and other locations around the country, necessitating a corresponding travel budget of nearly \$1 million. Further, the position increases, evolving nature of the work, mandatory training requirements, and succession planning increased our training funds to \$458,736. Our capital budget of \$50,000 reflects the purchase of two vehicles to replace a leased vehicle and to meet additional transportation requirements. More specifics on our budget request follow.

The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's budget, but is submitted separately consistent with the independence of the office.

**Discussion:**

The OIG's legislatively-mandated work increased sharply during 2009, primarily due to a significant increase in bank failures stemming from the financial crisis. Section 38(k) of the Federal Deposit Insurance Act requires that the Inspector General of the appropriate Federal banking agency, among other things, review the supervision of failed financial institutions and make recommendations for preventing future losses, when a bank failure results in a loss to the Deposit Insurance Fund that exceeds the greater of \$25 million or 2 percent of the bank's assets. These material loss reviews must be completed within six months. Over the last twelve months, sixteen Board-supervised state member banks have failed. Effectively carrying out this material loss review work requires substantial time, resource, and travel investments.

We anticipate that the new positions and the contractor funds will allow us to meet material loss review demands in 2010, and we expect that the contract budget will decline in future years as permanent staff take on this work. However, changing events—such as higher than expected levels of bank failures—may require additional resources. We will continue to be diligent in managing our budget. When the number of bank failures begins to decline, we will redirect staff from material loss reviews to risk-focused work. Like the Board, the OIG faces uncertainties about legislative requests and mandates that may alter our workload. We will inform the Board of any changes that significantly impact our operations.

Our staffing request and its budgetary implications have been discussed with Steve Malphrus and Governor Warsh, who have concurred with the proposal, and with Chairman Bernanke, who has approved our request. Consistent with new requirements from the Inspector General Reform Act, a summary statement regarding this budget request is enclosed (see page 3). Please contact me if you have any questions or wish to discuss.

Enclosure

cc: Steve Malphrus

**Enclosure: Inspector General Summary Statement per Inspector General Reform Act**

The Inspector General Reform Act (Pub. L. 110-409) was signed by the President on October 14, 2008. Section 6(f)(1) of the Inspector General Act of 1978, 5 U.S.C. app. 3, was amended to require certain specifications concerning OIG budget submissions each fiscal year.

Consistent with these requirements, the OIG of the Board of Governors of the Federal Reserve System submits the following information relating to the OIG's proposed 2010 budget:

- The OIG's proposed 2010 operating budget is \$19,239,055, and the capital budget is \$50,000;
- The portion of this amount needed for OIG training during 2010 is \$458,736; and
- The portion of this amount needed to support the Council of the Inspectors General for Integrity and Efficiency for 2010 is \$45,153.

I certify as the Board's Inspector General that the amount I have requested for training satisfies OIG training needs, and provides any resources necessary to support the Council of the Inspectors General for Integrity and Efficiency, for calendar year 2010.