

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

We performed this audit in accordance with section 38(k) of the FDI Act, which provides that if a deposit insurance fund incurs a material loss with respect to an insured depository institution on or after July 1, 1993, the Inspector General of the appropriate federal banking agency shall prepare a report to that agency reviewing the agency's supervision of the institution. A loss is considered material if it is or becomes apparent that the loss will exceed \$25 million and 2 percent of the institution's total assets at the time the Corporation was appointed receiver.

The FDI Act requires that the OIG report be completed within 6 months after "it becomes apparent" that a material loss has been incurred. However, the amount of the loss estimate can vary based on changing economic conditions and the FDIC's approach to resolving and liquidating the institution. The actual loss to the BIF will not be known until all receivership assets are liquidated, which typically occurs 5 or more years after the failure of an institution. As a result, in determining whether to initiate a material loss review, the OIG generally relies on the loss estimates recorded by the FDIC's Division of Finance (DOF). BestBank was closed on July 23, 1998 with total assets of \$314 million; DOF's initial estimated loss was \$28 million. We initiated our material loss review on July 24, 1998.

The scope of this audit included an analysis of BestBank's operations from March 1989, when the CEO purchased the bank, until its failure on July 23, 1998. Our review also entailed an evaluation of the regulatory supervision of the bank over the same time period. Our specific objectives were to: (1) determine the causes of BestBank's failure and resulting material loss to the BIF and (2) assess the FDIC's supervision of the bank, including implementation of the Prompt Corrective Action requirements of section 38 of the FDI Act. The impact of possible criminal misconduct upon the failure of BestBank is not within the scope of this material loss review and is currently being pursued by the FDIC and federal law enforcement agencies.

To accomplish our audit objectives, we performed the following procedures and techniques:

- Reviewed off-site monitoring data and other bank data maintained at the Division of Supervision Dallas Regional Office;
- Analyzed examination reports prepared by the FDIC and the State from 1989 to 1998;
- Reviewed reports prepared by the Division of Resolutions and Receiverships (DRR) and DOS relating to the bank's closure, including an internal DOS report analyzing its supervision of BestBank;
- Interviewed DOS management in Washington, D.C., and Dallas, Texas;
- Interviewed Legal Division officials, Division of Compliance and Consumer Affairs (DCA) officials, and DRR officials at the Dallas Regional Office;

- Interviewed FDIC and State examiners from Denver, Colorado, and from Lubbock and Dallas, Texas, who conducted safety and soundness examinations of BestBank;
- Met with Colorado Division of Banking officials to discuss examinations, enforcement actions, and other activities regarding the State's supervision of the bank;
- Reviewed consumer complaints on file with DCA and the State;
  
- Reviewed bank records (board minutes, bank policies and procedures, employee files, correspondence, and accounting records) for information that would give insight into the bank's failure;
- Reviewed field office records obtained from DOS and DRR related to the supervision and closing of BestBank;
- Reviewed BestBank's Uniform Bank Performance Reports (UBPR) from 1989 until 1998;
- Reviewed the 1996 OIG inspection report and related working papers regarding allegations by BestBank against DOS examiners; and
- Reviewed DOS policies and procedures.

We performed audit fieldwork at the DOS, Legal, DRR, and DCA offices in Dallas, Texas; DOS field offices in Denver, Colorado, and Lubbock, Texas; and the Colorado Division of Banking in Denver, Colorado.

We conducted the audit in accordance with generally accepted government auditing standards. In our opinion, the records obtained by the FDIC at the time of BestBank's failure were sufficient to enable us to accomplish the audit objectives. However, some records could have been misplaced or removed and may not have been available for our review. We conducted the audit from July 24, 1998 through November 20, 1998.