

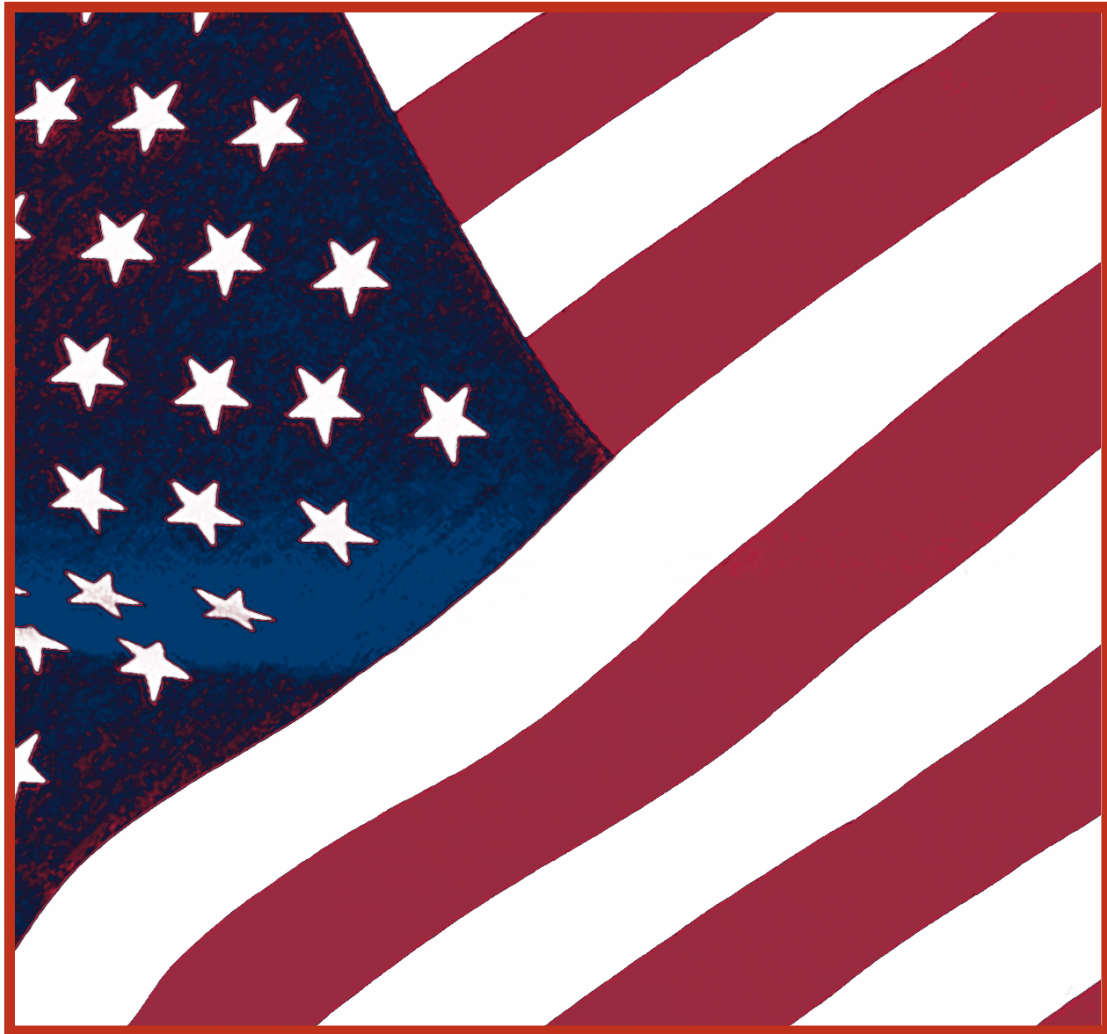


Office of Inspector General

**Semiannual Report
to the Congress**

Including the OIG's Performance Report

October 1, 2001 – March 31, 2002



Semiannual Report to the Congress
October 1, 2001 – March 31, 2002



Inspector General's Statement

At the time of our last semiannual report, the country was mourning in the aftermath of September 11, and our report was dedicated to the memory of those who had lost their lives in that tragedy. My office recommitted itself to the privilege of carrying out the mission of the Office of Inspector General (OIG) as public servants. We have done that in earnest during the reporting period and will continue to proudly serve the Federal Deposit Insurance Corporation (FDIC), the Congress, and the American people.

Our audit and evaluations staff successfully completed a comprehensive series of reviews related to the failure of Superior Bank, FSB, Hinsdale, Illinois, and I, along with the Inspector General from the Department of the Treasury and a representative from the U.S. General Accounting Office, testified before the Senate Committee on Banking, Housing, and Urban Affairs regarding the causes of that failure based on our work. Our investigative staff continued work related to the events of September 11 by participating on the New York Joint Terrorism Task Force and the Evidence Recovery Team at the Pentagon and by responding to a request from the Federal Bureau of Investigation's Financial Crimes Section for assistance in investigating the funding used to perpetrate the acts of terrorism and links to possible future acts.

As a mark of additional success this period, fines, restitution, and monetary recoveries resulting from investigative work totaled \$536 million. Other OIG components have provided assistance to the Corporation in a spirit of partnership in such areas as advice on the Division of Supervision Process Redesign II effort, comments on the Corporation's draft Emergency Response

Plan, and input to the Corporation's 2002 Performance Plan. Our office also co-sponsored a 2-day Emerging Issues symposium with Inspectors General of the Department of the Treasury and the Board of Governors of the Federal Reserve System. This symposium brought together senior officials, congressional staff, and other subject experts from our organizations who offered insights on the banking and financial services industries and the challenges facing all who are involved in those arenas.

However, much more needs to be done, and the future for everyone at the FDIC will be demanding. In February 2002 at an Executive Leadership Conference, FDIC Chairman Donald Powell announced a new and bold vision for the Corporation going forward. Through downsizing and reorganization, the workforce of the FDIC is expected to be streamlined but more agile and efficient. And though the workforce will be smaller in number, the Chairman further challenged his executive team to make the FDIC a leader in banking information, supervision, and policy. He envisions the FDIC providing more timely and better information than anyone else; recognizing and responding to emerging risks before they threaten safety and soundness or harm consumers; and becoming the authority and resource that the Congress, media, and others turn to for guidance.

The OIG fully supports that vision for the Corporation and will do all it can, in partnership with the Corporation, other financial regulatory agencies, and the Inspector General community, to help make it a reality. We are participating in the corporate downsizing program and have plans for resource realignments that we believe will enhance our overall effectiveness.



We will also monitor the various executive task forces as they carry out the Chairman's proposals. We appreciate additional opportunities afforded us by the Chairman to help shape the Corporation's future: we are attending the Chairman's meetings and other forums with the Chairman, Director John Reich, and other senior FDIC Executives and Board Members where we can share the OIG's independent perspectives on new initiatives and issues facing the Corporation. We not only value the opportunity for expressing such views, we also appreciate the support we are receiving from the Chairman and Director Reich, especially, as we carry out the OIG mission.

In addition to the organizational changes that the Corporation is facing, the banking industry itself continues to face risks, given economic uncertainties; new and riskier financial services and products; and possible new security threats to information, human, and physical resources. As the Corporation downsizes and restructures, it must ensure that it is able to fully carry out its mission. Every FDIC employee must be fully engaged in protecting the safety and soundness of the financial institutions and preserving public confidence in the nation's banking system. The OIG understands that responsibility and is committed to continuing to prepare and improve itself so that it can add maximum value to the Corporation as it confronts these risks.

Against the backdrop of change and risk, the FDIC and a number of other policymakers continue to recommend the merging of the Bank Insurance Fund and the Savings Association Insurance Fund. On October 17, 2001, Chairman Powell testified on deposit insurance reform before the Subcommittee on

Financial Institutions and Consumer Credit, Committee on Financial Services, U.S. House of Representatives. During the period January 1, 2000 through March 28, 2002, 17 financial institutions failed. We note that recent losses to the insurance funds are pushing the FDIC ever closer to the 1.25 percent designated reserve ratio of the insurance fund balance to estimated insured deposits, whereby the FDIC must charge premiums to all insured depository institutions. Increases in estimated insured deposits and/or losses from additional bank failures could potentially cause insurance funds to fall below the statutorily mandated reserve ratio. The FDIC is concerned that automatic triggers limit the flexibility of the FDIC Board of Directors to respond appropriately to differing economic and industry conditions. Therefore, the FDIC has supported statutory changes related to risk-based insurance premiums and assessment credits for past contributions. This situation lends additional importance to timely consideration of deposit insurance reform provisions.

In past semiannual reports I have pointed out that the FDIC Board position of Vice Chairman has been vacant since January 2001, a condition which I believe is to the Board's detriment and fails to ensure the independence of the FDIC. Although the FDIC Board is still not operating at full strength, a change to the FDIC's Board of Directors did take place during the reporting period. Mr. James Gilleran was confirmed as Director of the Office of Thrift Supervision, replacing Director Ellen Seidman, and thereby became one of the outside Directors on the FDIC Board. Director Gilleran also serves as a member of the Corporation's Audit Committee and brings to that forum valuable insights and background. I

must also note that another member of the Audit Committee, Ms. Myrta "Chris" Sale, who has served as Chief Financial Officer at the Corporation since May 1999 and who has offered great support of the OIG, will soon be leaving the Corporation and therefore the Audit Committee. We will miss her participation and the contributions she made to Audit Committee discussion and debate. I wish her much continued success on behalf of the entire OIG.

I also wish to acknowledge that I named Patricia M. Black as the OIG's Deputy Inspector General on April 8, 2002. Pat has served for the past 5 years as my Counsel and brings to her new position substantial experience in the Inspector General community as well as outstanding leadership and management skills that will serve the OIG well in the upcoming months as we re-create our office.

Finally, and sadly, the OIG lost a highly esteemed former colleague and friend during the reporting period. James A. Renick, my former Deputy Inspector General who served at the FDIC for more than 23 years, died on February 5, 2002. He will long be remembered for his many contributions to the OIG, the model life he led, and the positive human qualities that made him unique. We extend our sympathies to the members of Jim's family for their loss.

Gaston L. Gianni, Jr.
Inspector General
April 30, 2002



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Overview



Major Issues

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

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

In our previous semiannual report, we identified an important emerging management challenge that warranted attention: security. This area extends beyond information resources security concerns to issues of personal security and safety, largely in response to the terrorist activities of September 11, 2001. In this report we update efforts in this area.

We are also identifying a new emerging issue—that of the Quality of Bank Financial Reporting and Auditing. This emerging risk potentially affects the FDIC in its role as regulator, receiver, and insurer.

With respect to the major issues relating to the Corporation's core mission, the FDIC 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 financial institutions and carefully protecting consumers' rights. A Board of Directors operating at full strength is essential to lead the Corporation as it faces such challenges. Without a full Board, the Corporation's independence cannot be guaranteed. As the Corporation moves forward, deposit insurance reforms will continue to be debated and deliberated by the banking industry and the Congress. One aspect of such reform involves the possible merger of the Bank Insurance Fund and the Savings Association Insurance Fund, an action that the OIG supports.

Turning attention to the Corporation's more "operational" demands, the use of information technology (IT) at the FDIC is crosscutting and absolutely essential to the Corporation's accomplishment of its mission. In conducting its IT activities, the Corporation's priority must be the effective and efficient use of IT to achieve program results corporate-wide. It must continue to develop an enterprise architecture process to manage technology, applications, and technical infrastructure for the Corporation. It also needs to follow sound system development procedures, comply with IT principles espoused by legislation and regulation, and ensure that effective controls are in place and implemented to safeguard system security, mitigate risks, and protect IT resources. Given the extent of the FDIC's contracting activities, strong controls and vigilant contractor oversight are also critical to the Corporation's success. Contracting must be done in the most cost-effective manner. The Corporation's contract oversight mechanisms must protect the FDIC's financial interests and help ensure that the FDIC is actually getting the goods and services for which it is spending millions of dollars.

Major downsizing over the past years has already impacted the FDIC workplace and more is in store. As a result, the Corporation has lost

leadership and, in some cases, expertise and historical knowledge. The Corporation is taking steps to compensate for these resource losses and must build on ongoing initiatives to develop a comprehensive, integrated approach to human capital issues. It has established a Human Resources Committee and must continue to focus attention on human capital concerns.

In light of changes in the banking industry, advances in technology, and such dramatic shifts in staffing and skill levels, the Corporation has begun to closely scrutinize its business processes and their associated costs in the interest of identifying operational efficiencies. Among other activities, its Division of Supervision Process Redesign II project, New Financial Environment, and plans to relocate many D.C.-based staff to Virginia Square in the future have generated ideas for such efficiencies and are positive steps.

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

Our Major Issues section also discusses the OIG's completed and ongoing/planned work to help the Corporation successfully confront these major issues and their associated challenges. We discuss areas where we identified opportunities for improvements and the recommendations we made in those areas. We identified potential monetary benefits of \$1.6 million and made 68 nonmonetary recommendations during the reporting period. Our work targets all aspects of corporate operations and includes a number of proactive approaches and cooperative efforts with management to add value to the FDIC (see pages 11-26).

Investigations

The operations and activities of the OIG's Office of Investigations are described beginning on page 27 of this report. As detailed in the Investigations section, the Office of Investigations is reporting fines, restitution, and recoveries totaling approximately \$536 million. Cases leading to those results include investigations of bank embezzlement, wire fraud, bank fraud, misrepresentations regarding FDIC insurance, money laundering, and concealment of assets. Our report also highlights efforts of OIG agents working on September 11-related investigative assignments and discusses our new Electronic Crimes Team. Some of the investigations described reflect work we have undertaken in partnership with other law enforcement agencies and with the cooperation and assistance of a number of FDIC divisions and offices. To ensure continued success, the OIG will continue to work collaboratively with FDIC management, U.S. Attorneys' Offices, the Federal Bureau of Investigation, and a number of other law enforcement agencies (see pages 27-35).

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 realigning resources, building effective working relationships, and achieving high performance. This section of our report also references some of the cooperative efforts we have engaged in with management during the reporting period, including making presentations at corporate conferences and meetings. We note the proposed or existing laws and regulations reviewed during the past 6 months, refer to litigation and other 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 36-47).

OIG's 2001 Performance Report

We are including the OIG's 2001 Performance Report as a separate but integral component of our Semiannual Report to the Congress. Our performance report summarizes our progress against our annual plan, which contained 34 specific goals under the following three areas: Audits, Evaluations, and Investigations Add Value; Professional Advice Assists the Corporation; and OIG Communicates Effectively with Clients/Stakeholders. It is our hope that by presenting this report along with our semiannual report, the Congress and other readers will have a more complete picture of the FDIC OIG's overall performance and accountability (see pages 49-68).

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 69-75).

Highlights



- ◆ The Office of Audits issues a total of 19 reports containing potential monetary benefits of \$1.6 million.
- ◆ OIG reports include 68 nonmonetary recommendations to improve corporate operations and activities. Among these are recommendations to strengthen security over FDIC information systems, study apparent limitations of section 38 of the Federal Deposit Insurance Act (Prompt Corrective Action), develop interagency information-sharing agreements with other federal regulators, pursue legislative changes related to vesting special examination authority in the Chairman, enhance risk-scoping procedures for Fair Lending examinations, and improve the Corporation's guidance for determining the least-cost resolution of failing financial institutions.
- ◆ OIG investigations result in 21 indictments/informations; 11 convictions; and approximately \$536 million in total fines, restitution, and civil settlements. Approximately \$531 million of that dollar amount represents court-ordered restitution and is not an amount that has been collected.
- ◆ The OIG continues efforts with the Division of Resolutions and Receiverships (DRR) to pursue court-ordered restitution. As of March 31, 2002, the OIG is conducting 32 investigations that are being coordinated with DRR and involve a total of over \$1.2 billion in outstanding restitution orders or other types of debt.
- ◆ The OIG and U.S. General Accounting Office continue their joint effort to audit the Corporation's financial statements. The OIG submits required information for the government-wide financial statement audit.

- ◆ OIG counsel litigates seven matters during the reporting period and provides advice and counsel on a number of issues.
- ◆ The OIG reviews and comments on 1 proposed federal regulation and 18 proposed FDIC policies and directives and responds to 7 requests under the Freedom of Information Act and Privacy Act.
- ◆ The OIG coordinates with and assists management on a number of initiatives, including a joint project with the Office of Internal Control Management and the Division of Administration to ensure that accounting and auditing contractors comply with the General Accounting Office's new independence standards, coordination with the Division of Supervision (DOS) on its Process Redesign II project, Office of Investigations presentations at DOS Commissioned Examiner Seminars, and Office of Audits Executives' participation at DOS Field Office Supervisor meetings.
- ◆ The OIG accomplishes a number of internal office initiatives, including formulation of a comprehensive plan for downsizing and restructuring, issuance of a draft Human Capital Plan, participation in the President's Council on Integrity and Efficiency's Social Security Number Misuse working group, completion of our fourth external client survey, and establishment of the OIG's Information Security Program.
- ◆ The Office of Audits receives an unqualified opinion on a peer review conducted by the OIG of the U.S. Agency for International Development.
- ◆ The OIG issues the results of a review of the FDIC's special examination authority and DOS's effectiveness in

monitoring risks posed by the nation's largest banks. Additionally, the OIG comments in advance on the draft interagency agreement signed on January 29, 2002 authorizing an expanded delegation of authority to grant the FDIC more autonomy in examining banks that pose a heightened risk to the insurance funds.

- ◆ The FDIC OIG joins Offices of Inspector General of the Department of the Treasury and the Board of Governors of the Federal Reserve System in hosting an Emerging Issues Symposium that brings together senior officials, congressional staff, and subject experts and audit staff from the financial regulatory agencies.
- ◆ The OIG's Office of Investigations completes assistance in terrorist investigations carried out in New York City and at the Pentagon. The OIG is also assisting the Federal Bureau of Investigation's Financial Crimes Unit in investigating the funding used to perpetrate the acts of terrorism on September 11 and links to possible future acts.
- ◆ The OIG issues results of four reviews, several based on a congressional request, related to the failure of Superior Bank, FSB, Hinsdale, Illinois. Loss estimates resulting from the failure total \$440 million as of March 31, 2002. This loss estimate was derived after including the discounted value of the note received in settlement from the bank's former owners and considering that actual recoveries on remaining assets were less than earlier projections.
- ◆ Inspector General Gianni testifies on the failure of Superior Bank before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, commenting on areas where regulatory oversight

could be strengthened; the regulatory capital treatment of residual assets; and the FDIC Board's authorization of an expanded delegation of authority for examiners to conduct examinations, visitations, or other activities of insured depository institutions.

- ◆ Inspector General Gianni submits Fiscal Year 2003 Appropriation Request to the Subcommittees on VA, HUD and Independent Agencies, Committee on Appropriations, U.S. House of Representatives and U.S. Senate.
- ◆ Inspector General Gianni testifies in his capacity as Vice Chair of the President's Council on Integrity and Efficiency before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, U.S. House of Representatives, regarding the President's Management Agenda and the role of the Inspector General community in accomplishing the agenda.
- ◆ The OIG provides advisory comments to management on the FDIC's 2002 Annual Performance Plan focusing on the linkage between the performance plan goals and those articulated by Chairman Powell at the Corporation's February 2002 Leadership Conference.
- ◆ The OIG provides the Corporation with a risk analysis of an emerging risk: the Quality of Bank Financial Reporting and Auditing, an area of potential concern to the FDIC in its role as regulator, receiver, and insurer.
- ◆ The OIG comments on the Corporation's draft Emergency Response Plan and continues an evaluation of the adequacy of the physical security of FDIC facilities in headquarters and other selected sites.

- ◆ As a result of OIG investigative efforts conducted with the Federal Bureau of Investigation, the Internal Revenue Service, the U.S. Attorney's Office for the Southern District of West Virginia, and the U.S. Department of Justice, seven former officials of the First National Bank of Keystone were sentenced, with resulting fines and restitution of more than \$527 million.
- ◆ The OIG holds an office-wide conference, the theme of which is Putting People First, in late October 2001. Emphasis is placed on the value that the OIG places on its staff and the role they have in contributing to the FDIC and OIG missions.
- ◆ The FDIC and the banking industry are experiencing significant and rapid change. We believe a number of issues associated with these challenges are deserving of special attention at this time. These broad major issues are identifying areas where the OIG focuses its resources.



OIG staff responsible for work related to the failure of Superior Bank, FSB.



Major Issues



Organizational Leadership

Strong leadership has always been vital to the success of the banking and financial services industry. The FDIC Board is comprised of five directors, including the FDIC Chairman, two other external directors, the Comptroller of the Currency, and the Director of the Office of Thrift Supervision (OTS). All are presidential appointees. At the FDIC during the 1990s, one or more presidentially appointed positions on the Board of Directors frequently were vacant. Perhaps now more than ever, the Corporation needs a full complement of Board members to carry out the FDIC mission.

Of special note during the reporting period was that James Gilleran was sworn in on December 7, 2001 as Director of OTS and, as such, joined the FDIC Board. Notwithstanding Director Gilleran's membership on the FDIC Board, the Board continues to operate with one vacancy. The Board position of Vice Chairman has been vacant since January 2001. The FDIC is both the independent regulator of a significant portion of the nation's banking system as well as the only federal insurer of deposits wherever they are placed in our nation's banks. As a corporation governed by its Board of Directors, the vital balance between various interests implicit in the Board's structure is preserved only when all vacancies are filled. Accordingly, we have strongly urged that vacancies on the FDIC's Board be filled as promptly as practicable in order to afford the FDIC the balanced governance and sustained leadership essential to the agency's continued success.

The OIG again emphasizes its belief that to handle the challenges and issues facing the Corporation, a Board of Directors operating at full strength must be in place.

Management Challenges at the FDIC

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

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

In our last semiannual report, following the events of September 11, 2001, we identified an additional, rapidly emerging management challenge, that of Ensuring the Security of the FDIC's Physical and Human Resources. We update progress in this area in this semiannual report.

The Corporation has a number of ongoing programs and initiatives in place to address all of these challenges and we continue to work in partnership with the Corporation on these major issues. Additionally, in this report we discuss a new issue that has potential impact on the FDIC in its role as regulator, insurer, and receiver: the Quality of Bank Financial Reporting and Auditing.

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

Although the FDIC has a continuous program to ensure the viability of the deposit insurance funds, recent trends and events continue to pose additional risks to the funds. The economic landscape changed dramatically following the events of September 11, and recovery is on the upswing, but the potential exists for an increased number of bank failures. Additionally, the environment in which financial institutions operate is evolving rapidly, particularly with the acceleration of interstate banking; new banking products and asset structures; electronic banking; and consolidations that may occur among the banking, insurance, and securities industries resulting from the Gramm-Leach-Bliley Act.

Bank mergers have created “megabanks,” or “large banks” (defined as institutions with assets of over \$25 billion), and, for many of these institutions, the FDIC is not the primary federal regulator. As of March 31, 2001, there were 38 megabanks in the country. Of the \$5.3 trillion consolidated assets controlled by the 38 megabanks, the FDIC was the primary federal regulator for only \$162.5 billion in 3 institutions. The megabanks created as a result of mergers and the new or expanded services that the institutions can engage in under the Gramm-Leach-Bliley Act are presenting challenges to the FDIC. The failure of a megabank, for example, along with the potential closing of closely affiliated smaller institutions, could result in huge losses to the deposit insurance funds.

OIG Reports on the Failure of Superior Bank, FSB

A significant portion of our work during the reporting period focused on issues related to addressing risks to the insurance funds. Specifically, we conducted a series of reviews based on a congressional request from Senator Paul Sarbanes, Chairman of the Senate Committee on Banking, Housing, and Urban Affairs, related to the failure of Superior Bank, FSB, Hinsdale, Illinois.

Upon the failure of Superior Bank, OTS closed the institution on July 27, 2001. At the time of closure, Superior had total assets of \$2.2 billion and total deposits of \$1.6 billion. The FDIC was named conservator and transferred the insured deposits and substantially all of the assets of Superior to Superior Federal, FSB (New Superior), a newly chartered, full-service mutual savings bank. The failure of Superior was one of the costliest of all recent failures. The FDIC’s most recent loss estimate is \$440 million.

On December 10, 2001, the Corporation and the former owners of Superior entered into a settlement agreement. The terms of the settlement

included the FDIC receiving a payment of \$460 million, of which \$100 million was received at closing. The \$360 million remainder will be amortized over a 15-year period at a zero percent interest rate. Various other contingencies will impact the final settlement amount. Superior was the third FDIC-insured failure of 2001 but the first institution insured by the Savings Association Insurance Fund to be closed during that year.

Given the FDIC’s role in promoting and preserving public confidence in financial depository institutions, Senator Sarbanes requested that the OIG review why the failure of Superior Bank resulted in such a significant loss to the insurance fund and that we make recommendations for preventing any such loss in the future. The Senator’s request contained a list of specific issues for us to address. Because Superior Bank was an institution regulated by OTS, the Department of the Treasury OIG was also asked to conduct a parallel review, as was the U.S. General Accounting Office. The Treasury OIG also conducted a material loss review of Superior.

These reviews all culminated in congressional hearings on February 7, 2002, at which the FDIC Inspector General and others testified.

In addition to Senator Sarbanes’ request, we initiated reviews to address four related issues surrounding the failure of Superior:

- The effectiveness of section 38 of the Federal Deposit Insurance Act, also known as Prompt Corrective Action, in preventing or reducing losses to the deposit insurance funds as a result of bank failures;
- The processes in place that help ensure that DOS case managers stay informed of emerging issues to maintain an informed position on their caseloads and effectively monitor risk and instances where the case manager’s evaluation of an institution differs

substantially from that of its primary regulator;

- The FDIC’s least cost decision to place Superior Bank into a conservatorship and its liquidation of remaining receivership assets; and
- The Division of Resolutions and Receiverships’ marketing and resolution of Superior Federal, FSB (New Superior).

We also completed a follow-up audit entitled The FDIC’s Use of Special Examination Authority and DOS’s Efforts to Monitor Large Bank Insurance Risks.

Lessons Learned from Superior Bank

Our independent assessment of Superior Bank’s failure determined that several factors involving a number of different participants in the institution’s activities contributed to the institution’s demise. As we reported, a number of lessons can be learned from the history of Superior and these are further discussed below.

The failure of Superior Bank was directly attributable to **bank management** and the bank’s Board of Directors ignoring sound risk management principles and failing to adequately oversee Superior operations. Specifically, these bank officials:

- Permitted the institution to concentrate its business too heavily in high-risk assets (residual assets resulting from Superior’s securitizing or reselling loans) without maintaining adequate financial resources to withstand potential losses,
- Used unrealistic and overly optimistic assumptions to record the value of residual assets in the institution’s accounting records,
- Supported liberal interpretations of accounting principles that enabled the





Senator Paul Sarbanes and Inspector General Gianni following a hearing on the failure of Superior Bank.

institution to recognize enormous gains on sales of residual assets and report impressive net income figures that masked the net operating losses the institution was actually experiencing, and

- Paid dividends and executed other transactions that benefited Superior's holding company but further depleted the institution's capital.

Superior's external auditors, Ernst & Young (E&Y), rendered unqualified opinions every year from 1990 through 2000 and supported the bank's valuations of residual assets and its methodology for calculating gains on sales of those assets. Even after the regulators began questioning the valuations in January 2000, the firm steadfastly maintained that the bank was properly valuing the assets in accordance with accounting principles. It was not until 1 year later that E&Y reversed its position and agreed with the regulators' opinion that the value of the residual assets should be adjusted to comply with those same principles, which required a \$270 million reduction in the bank's accounting records. The regulators later identified \$150 million more in write-downs to the residual assets so their value would be fairly presented. Once these accounting adjustments were made, Superior was deemed insolvent.

Further, in our opinion, E&Y did not:

- Encourage certain disclosures in the bank's financial statements that would have been expected under the circumstances,
- Perform sufficient tests and other procedures to ensure the proper valuation of residual assets on the bank's accounting records, and
- Identify or disclose a significant misstatement of Superior's loan loss reserves.

While **Office of Thrift Supervision** examination reports identified many of the bank's problems early on, OTS did not adequately follow up and investigate the problems, particularly the valuation of residual assets carried by the bank. OTS appeared to rely mostly on representations made by the bank and validated by E&Y. OTS also placed undue reliance on the ability of the wealthy owners of the bank's holding company to inject capital if it was ever needed. However, when an injection of capital was needed in 2001, the owners agreed to, but subsequently did not, provide the necessary capital. Warning signs were evident for many years, yet no formal supervisory action was taken by OTS until July 2000, which ultimately proved too late.

Coordination between regulators could have been better. OTS denied a request by the FDIC to participate in the January 1999 examination of Superior. Instead, OTS allowed the FDIC to meet with the OTS examination team off-site to discuss concerns approximately 1 week before the end of the examination. FDIC regional management did not raise this issue to the FDIC Board of Directors to gain access through the FDIC's special examination authority. OTS and the FDIC did work together in the January 2000 examination and more clearly identified the problem with the residual asset valuations. Even then, however, the regulators initially relied on bank management and E&Y assurances that the bank was properly accounting for its securitization activities and did not immediately put a halt to these transactions, to the detriment of Superior.

The early intervention provisions of section 38 of the Federal Deposit Insurance Act, commonly referred to as **Prompt Corrective Action (PCA)**, require regulators to address problems before the financial condition of a failing institution deteriorates significantly. PCA did not work in the case of Superior. The capital ratios at Superior

did not accurately reflect the financial position of the institution because the ratios were based on inflated asset valuations. In addition, beginning with OTS's 2000 examination, we believe that OTS used a methodology to compute Superior's capital that artificially increased the capital ratios, thus avoiding the provisions of PCA. By using a post-tax capital ratio for the first time that we were able to determine, Superior was classified as "adequately capitalized." If a pre-tax calculation had been used, Superior would have been "undercapitalized," thus more immediately subjecting Superior to various operating constraints under PCA. These constraints may have precluded Superior management from taking actions late in 2000 that were detrimental to the financial condition of the institution.

The federal banking agencies have attempted to address these PCA issues through the adoption of risk-focused examination programs and risk-based capital requirements. In addition, on November 29, 2001, the agencies issued a new rule that changes, among other things, the regulatory capital treatment of residual interests in asset securitizations. The rule, which became effective on January 1, 2002, addresses the concerns associated with residuals that exposed financial institutions like Superior to high levels of credit and liquidity risk.

Our review identified other areas in which we believe regulatory oversight could be strengthened. Specifically, the bank regulatory agencies should focus attention on policies and procedures for:

- Reviewing external auditors' working papers for institutions that operate high-risk programs, such as subprime lending and securitizations;
- Following up on warning signs that indicate possible fraud or other irregularities;



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- Consulting with other regulators when they encounter complex assets such as those at Superior Bank; and
- Following up on previous examination findings and recommendations.

OIG Further Pursues Prompt Corrective Action Issues

We conducted another review that further pursued PCA issues. This review was based on discussions with staff of the Senate Committee on Banking, Housing, and Urban Affairs. The committee staff requested that we assess how well the PCA provisions in section 38 of the Federal Deposit Insurance Act were working.

In conducting our work, we concentrated our efforts on the three largest institution failures that have occurred since January 1997. As of December 31, 2001, the failure of those three institutions accounted for \$1.17 billion, or 80 percent of the total losses to the deposit insurance funds from the 23 institutions that failed between January 1997 and September 2001. In addition, these three institutions had high concentrations of residual assets. We focused our audit to determine whether section 38 actions were implemented in a timely manner for Superior Bank, First National Bank of Keystone (Keystone), and Pacific Thrift and Loan Company and whether those actions prevented or reduced losses to the insurance funds.

We determined that the federal banking regulators were precluded from initiating section 38 corrective actions timely because Superior, Keystone, and Pacific Thrift and Loan Company valued residual assets in a manner that increased income and inflated their reported capital balances above the minimum capital levels that require the regulators to invoke such actions. In each case, the financial condition of the institution had significantly deteriorated before the regulators were able to invoke PCA. These circumstances indicate apparent

limitations in the effectiveness of section 38. First, the capital level can be a lagging indicator of an institution's financial condition, and section 38 lacks other indicators besides capital that may be helpful in signaling the need for regulatory intervention. Second, regulatory agencies use data prepared and submitted by the institutions themselves to determine when PCA should occur, and that data may not be reliable. We recommended that the FDIC study these limitations to determine whether the addition of non-capital measures would increase the effectiveness of section 38 in preventing or minimizing losses to the insurance funds.

Further, although section 38(g) permits regulators to take PCAs based on factors other than capital, it does not provide specific criteria for implementation and imposes some restrictions that limit the timeliness and range of actions taken. Therefore, we also recommended that the FDIC, as part of its study, assess whether regulatory or legislative changes should be pursued to clarify when section 38(g) should be invoked and to eliminate the restrictions imposed by this section.

The FDIC's Decision to Place Superior Bank into Conservatorship

Again, in connection with Superior Bank's failure, we completed an audit of the FDIC's decision to place substantially all of the assets and certain liabilities of Superior into a conservatorship and of the Corporation's efforts to liquidate Superior's assets that did not transfer to that conservatorship.

Our review determined that the FDIC Board of Directors made its least cost decision to place Superior into conservatorship primarily on the Division of Resolutions and Receiverships' (DRR) recommendation and the information presented in DRR's failing bank case. DRR presented two resolution alternatives to the FDIC Board in its failing bank case but did not include complete financial analyses to support

the projected loss to the deposit insurance fund for these options.

Prior to the presentation of the failing bank case, DRR's access to Superior records and personnel was limited partly based on the fact that Superior's owners were in the process of implementing a capital restoration plan that purported to address the capital problems at Superior. As a result, DRR did not complete the Information Package or Asset Valuation Review, two critical activities that enable DRR to solicit bids from potential acquirers and compare the offers for determining the least costly resolution strategy, as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. Additionally, DRR did not have sufficient information to develop other possible resolution alternatives for Superior prior to presenting the failing bank case to the FDIC Board.

DRR adequately documented the asset and receivership liability claim balances and the deposit premium estimates used in the failing bank case but did not adequately document the assumptions used to estimate the loss on Superior's \$2.4 billion in assets. This loss value was instrumental in projecting the cost of Superior's failure to the deposit insurance fund in the failing bank case.

DRR does not have adequate guidance for determining the least costly resolution for large financial institutions in situations where DRR cannot complete the Information Package or an Asset Valuation Review before the institution is closed and, thus, DRR's current guidance was not applicable to the Superior resolution. DRR has made improvements to its resolution process in the last few years. DRR developed information-sharing arrangements with the Office of the Comptroller of the Currency and the FDIC's DOS that have facilitated DRR's early access to failing institutions. DRR also included in its 2002 Strategic Plan an objective to document and retain appropriate background information concerning



unique situations encountered for each resolution for future DRR reference or for presentation purposes.

Follow-up Audit Addresses the FDIC's Special Examination Authority and Large Bank Risk Monitoring

We reported the results of our follow-up audit of a study that we conducted of DOS's efforts to monitor and assess risks at insured institutions for which the FDIC is not the primary federal regulator. In a memorandum to the FDIC Chairman in October 1999, we reported that other federal regulators had occasionally restricted the FDIC's efforts to participate in safety and soundness examinations at institutions for which the Corporation is not the primary federal regulator. Such restrictions had limited the FDIC's ability to assess risks to the deposit insurance funds. We also reported that because of limitations in the information routinely provided to DOS by the other regulators pertaining to the nation's largest banks, DOS may not be able to adequately assess the risks that the country's largest non-FDIC supervised banks pose to the insurance funds.

The objective of our follow-up review was to assess the progress that the FDIC has made since the issuance of our previous memorandum and to make recommendations that might improve the Corporation's effectiveness in working with the other federal regulators. We reviewed the issues solely based on information provided by the FDIC in its efforts to effectively carry out its mission. We did not perform audit fieldwork at the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, or OTS.

In our 1999 memorandum, we had suggested that the Chairman (1) request delegated authority from the FDIC Board to initiate special examinations without having to secure the concurrence of the primary federal

Inspectors General Host Symposium

During the reporting period, the Offices of Inspector General of the Department of the Treasury, the Board of Governors of the Federal Reserve System, and the FDIC jointly sponsored a 2-day Emerging Issues Symposium at the Seidman Center. This forum brought together a number of speakers who presented their perspectives on the banking and financial services industries and the challenges facing all who are involved in those arenas. Among the distinguished speakers were Director Reich from the FDIC; Governor Roger Ferguson from the Board of Governors of the Federal Reserve System; John Hawke, Comptroller of the Currency; and Ellen Seidman, Director of the Office of Thrift Supervision. Additionally, staff representatives from the Senate Banking, Housing, and Urban Affairs Committee, Subcommittee on Financial Institutions; and House Financial Services Committee participated in a panel discussion addressing congressional priorities and legislative agendas for current and future banking issues. Other sessions included an interagency panel on the failure of Keystone Bank, presentations by Division of Supervision staff on asset securitization activities and subprime and predatory lending, a discussion of identity theft given by a Federal Trade Commission representative, and a joint presentation by FDIC Legal Division and Treasury OIG Counsel on the Patriot Act and Money Laundering. Participants at the symposium were unanimous in their appreciation for the opportunity to come together and hear such dynamic and enlightening discussion. Ideas presented during the 2 days will serve to enhance the work of the Inspector General community, and participants look forward to other such cooperative initiatives in the future.

regulator or the approval of the Board or (2) seek a legislative change to vest this authority in the Chairman.

Based on the results of our follow-up review, the circumstances supporting our previous suggestion did not substantially change, and movement in the industry and the consequences of additional failures increased the risk to the deposit insurance funds. Accordingly, we formally recommended that the FDIC's special examination authority be strengthened. Additionally, as a result of our follow-up work, we reaffirmed the position that we expressed in our prior review by recommending that DOS develop agreements with the other bank regulatory agencies to provide the FDIC with the real-time information and access to megabanks necessary to carry out the Corporation's responsibilities as the insurer. DOS agreed with this recommendation.

Prior to issuing our report, we had an opportunity to review a draft interagency proposal addressing factors that have restricted the FDIC's special examination authority and the Corporation's concerns regarding information sharing. We also discussed the proposal with DOS management. We commended the Corporation's efforts to address past problems in gaining access to and information on institutions for which the FDIC is not the primary federal regulator. We also expressed several concerns related to limitations that the language of the draft agreement might place on the FDIC's statutory authority to independently assess risks to the deposit insurance funds.

On January 29, 2002, the FDIC's Board of Directors acted on the proposal by authorizing an expanded delegation of authority to grant the FDIC more autonomy in terms of examining banks that pose a heightened risk to the deposit insurance funds. The new

delegation also provides for the creation of a dedicated FDIC examiner program at the eight largest banks and is intended to provide more timely access to information related to those banks. After signing the agreement, FDIC Chairman Powell stated, “The agreement establishes a better process for determining when the FDIC will use its authority to examine any insured institution. It will further protect the insurance funds. It shows what the banking regulators can achieve when we work together.”

Our report went a step further and recommended that the FDIC pursue a legislative change that would vest special examination authority in the FDIC Chairman. We believed this was the best approach to resolving problems related to the Corporation’s special examination authority because any agreement is subject to interpretation and varying degrees of support when there is a change among the leadership of the four federal banking agencies. DOS agreed with this recommendation and stated that revising section 10(b)(3) of the FDIC Act would achieve a more permanent solution to inefficiencies related to the FDIC’s use of special examination authority. As a result, DOS had included amending section 10(b)(3) in its Legislative Priorities list for 2002. However, upon corporate review, this was not pursued.

Supervising Insured Institutions

The FDIC shares supervisory and regulatory responsibility for approximately 9,796 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 OTS, and state authorities. The FDIC is the primary federal regulator for 5,579 federally insured state-chartered commercial banks that are not members of the Federal Reserve System, which includes

state non-member banks, including state-licensed branches of foreign banks and state-chartered mutual savings banks. 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 insurance funds.

Emerging trends and new developments in the banking industry require the Division of Supervision (DOS) to identify and assess risks from:

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

Further, DOS may have to reevaluate the concepts of risk, capital, and asset valuation in light of recently developing investment products and methods.

There are also continuing pressures for the FDIC to increase the efficiency of the bank examination process designed to identify and assess these risks. Additionally, with the possibility of a serious economic downturn, and given the magnitude of FDIC corporate downsizing, DOS must assess its size and mix of expertise and skills in its workforce to ensure sufficient capacity for addressing increased risks. Considering the lead time for developing new commissioned examiners, the FDIC

needs to ensure the examination workforce will be adequate for handling potential problems and bank failures.

OIG Work Addresses Supervision Challenges

The OIG’s work related to the Corporation’s supervision activities during the reporting period consisted in part of ongoing assistance provided to Phase II of the DOS Process Redesign Project. OIG staff provided input and feedback to proposals and questions. A major focus of recent involvement is DOS’s new Maximum Efficiency Risk-focused Institution Targeted (MERIT) Guidelines for examining small, low-risk institutions. The OIG is pleased to play a part in helping to ensure that the programs developed by DOS contain adequate management controls.

Additionally, the OIG issued a report that was one of a series of reviews initiated in response to the failure of Superior Bank, FSB, Hinsdale, Illinois, that was placed into receivership on July 27, 2001. (See earlier discussion of Superior Bank-related work.) We conducted our Evaluation of Rating Differences Between the FDIC and Other Primary Federal Regulators to determine the extent to which there are ratings differences between the FDIC and the primary federal regulator and to evaluate the process for resolving these differences.

We identified few ratings differences during our review period, and, consistent with the FDIC’s procedures for Disagreement with Primary Federal Regulator Ratings, case managers told us that good communication and coordination with the primary federal regulator were the keys to resolving differences, and, more broadly, monitoring the condition of institutions not supervised by the FDIC.

Some case managers raised concerns related to the FDIC’s special examination authority. These concerns were further addressed as part of our follow-up audit of the FDIC’s use of



special examination authority and DOS's efforts to monitor large bank insurance risks, as discussed earlier in this report.

Protecting Consumer Interests

The FDIC is legislatively mandated to enforce various statutes and regulations regarding, for example, consumer protection and civil rights with respect to state-chartered, non-member banks and to encourage community investment initiatives by these institutions. Some of the more prominent laws and regulations in this area include the Truth in Lending Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, Fair Housing Act, Home Mortgage Disclosure Act, Equal Credit Opportunity Act, and Community Reinvestment Act of 1977.

The Corporation accomplishes its mission related to fair lending and other consumer protection laws and regulations primarily by conducting compliance examinations, taking enforcement actions to address unsafe or unsound banking practices and compliance violations, encouraging public involvement in the compliance process, assisting financial institutions with fair lending and consumer protection compliance through education and guidance, and providing assistance to various parties within and outside of the FDIC.

OIG Reviews Fair Lending Examination Risk-Scoping Procedures

We completed our review of *The Division of Compliance and Consumer Affairs' Risk-Scoping Procedures for Fair Lending Examinations* during the reporting period. "Fair lending" is a term used to describe compliance with two federal laws prohibiting discrimination in lending: the Fair Housing Act enacted by Title VIII of the Civil Rights Act of 1968 and the Equal Credit Opportunity Act of 1974.

Our report discusses the adequacy of Federal Financial Institutions Examination Council procedures for the FDIC's pre-examination planning for fair lending examinations of small banks and the FDIC's implementation of those procedures. The procedures were not adequate for many of the banks that the FDIC supervises, and a lack of available monitoring and demographic data often made it difficult for examiners to apply procedures for determining potential discrimination. The Corporation had, however, initiated several compensating actions. Specifically, the Division of Compliance and Consumer Affairs (DCA) issued FDIC Examination Procedures for "Low-Risk" Institutions that discusses how to risk-focus reviews of fair lending requirements. DCA has also implemented new training for its examiners that addresses the conduct of fair lending examinations, including various issues that arise during risk-scoping. Finally, DCA has revised its referral and consultation program to emphasize direct contact with the Washington Office for guidance during the fair lending examination process.

We also determined that documentation of the risk-scoping process could be improved. A DCA internal review confirmed that the present level of documentation of the risk-scoping process needs to be improved, and new documentation requirements will be issued in May 2002.

Deposit Insurance Reform

On October 17, 2001, Chairman Powell testified on deposit insurance reform before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Financial Services, U.S. House of Representatives. The Chairman recommended the merger of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), charging risk-based premiums to all institutions, allowing insurance funds to build or

shrink around a target or range, establishing assessment credits based on past contributions, and indexing insurance coverage and raising the insurance on retirement accounts.

The FDIC views these recommendations as interrelated and believes they should be implemented as a package because piecemeal implementation could introduce new distortions and aggravate the problems that the recommendations are designed to address. While conceptually the recommendations appear to the OIG to be sound, we have not done work related to all of them. Based on work to date, the OIG strongly supports merging the funds.

Chairman Powell noted the unanimity within the banking community on this particular point. Today, as a result of bank mergers and acquisitions, many institutions hold both BIF- and SAIF-insured deposits, obscuring the difference between the funds. In fact, the Chairman stated that more than 40 percent of SAIF-insured deposits are now held by commercial banks. The resulting fund would not only be stronger and better diversified but would also eliminate the concern about a premium disparity between the BIF and the SAIF. Assessments in the merged fund would be based on the risk that institutions pose to the single fund. The prospect of different prices for identical deposit insurance coverage would be eliminated. Also, insured institutions would no longer have to track their BIF and SAIF deposits separately, resulting in cost savings for the industry.

On April 4, 2002, the Chairman also spoke about merging the funds at the University of North Carolina Banking Law Center in Chapel Hill, North Carolina. In his statement he said,

If the conditions we have seen for the last several years were to continue, the safest banks and thrifts that paid to build up the

funds on balance would be no worse off than they are under the present system. Riskier banks, fast growers, and new entrants would bear more of the assessment burden in the short term. It also means that, if conditions worsen, the safest banks would be better off than they are under the present system, since their premiums during a downturn would be lower.

Bills are currently under consideration in both the House and Senate regarding deposit insurance reform. Testimony by the Treasury and the Federal Reserve System supports the FDIC's proposed framework for changing the way deposit insurance is paid for. We will continue to monitor this important initiative, as changes in this area will impact the way the FDIC operates and how our office can best support the FDIC in pursuit of its mission.

Managing Information Technology

Accomplishing information technology (IT) goals efficiently and effectively requires significant expenditures of funds and wise decision-making and oversight on the part of FDIC management. The Corporation's 2002 IT budget is approximately \$192.5 million.

IT is increasingly impacting every facet of our lives and is evolving at a rapid 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. The capabilities provided by IT advances such as paperless systems, electronic commerce, electronic banking, and the instantaneous and constant information-sharing through Internet, Intranet, and

Extranet sources also pose risks to the Corporation and the institutions that it regulates and insures. Many of the risks are new and unique. Solutions to address them are sometimes difficult and without precedent.

In addition to technological advances, the Corporation must continue to respond to the impact of new laws and regulations on its operations. Management of IT resources and IT security have been the focus of several significant legislative acts, such as the Government Performance and Results Act and the Paperwork Reduction Act. The Government Information Security Reform Act requires the OIG to conduct an annual evaluation of the FDIC's information security controls. Our second such review is currently ongoing.

According to the 2002 Annual Performance Plan, the Corporation will continue to be engaged in several major technology initiatives during the remainder of 2002. These include the following:

New Financial Environment. The FDIC is working to replace its financial system, resulting in substantially lower costs and greater functionality when fully implemented. The new financial environment will improve business processes by adopting the best practices built into software packages, simplify and consolidate the financial application and data environment, enhance efficiency by automating manual work, maximize e-business opportunities, and provide better information for corporate decision-making. (See a discussion of OIG work related to the New Financial Environment later in this report.)

Information Security Program Improvements. The Corporation developed and implemented an information security program to address identified weaknesses. During 2002 the Corporation plans to enhance security performance measurement and contractor and external security.

Enterprise Architecture. A new enterprise architecture process will be introduced to manage technology, applications, and technical infrastructure for the Corporation. The new enterprise architecture process will be integral to corporate and IT planning and should provide a corporate view of and future direction for business processes, information, applications, and infrastructure. It will also provide the standards and procedures to be followed whenever a new information system is being built.

Our work in the IT area during the reporting period identified a number of significant security concerns and opportunities to improve the efficiency and effectiveness of certain applications and data integrity as well. A brief summary of important IT-related products follows.

Follow-up Audit of Internal Controls over the Customer Information and Control System (CICS) for FDIC Financial Systems

CICS is a transaction management program for mission-critical applications, such as the Bank Information Tracking System, Call Processing System, and the FDIC's financial systems. Such financial systems include the Financial Information Management System general ledger, the Accounts Payable Purchase Order System, and the Electronic Procurement Routing Invoice Solution. The financial systems record and report all the financial activity of the Corporation.

CICS provides the interface between these application programs and the computer's operating system. Specifically, it provides the mainframe operating system with the ability to handle transactions from user terminals such as a personal computer.

In order to conduct its functions, CICS uses a System Definition File. The System Definition File within CICS



identifies and defines what transactions or programs are available to users of the mission-critical applications. Also the CICS software system includes very powerful capabilities (for example, commands that can shut down the application systems) that must be appropriately controlled to protect corporate applications and data. Consequently, to ensure the integrity of application programs and data, CICS must be integrated with the security software used on the mainframe computer.

Our audit determined that controls were not in place to protect access to the CICS System Definition File within the CICS system. As a result, over 100 non-CICS programmers had full access to the file and had the capability to shut down or disrupt the systems that are critical to the FDIC's mission. When we brought this condition to management's attention, appropriate action was taken to correct the problem.

We determined that other access security controls were adequate for CICS system files, resources, and software monitoring products used by the FDIC financial systems.

Security and Controls over the Risk Analysis and Value Estimation System

The FDIC is charged with the resolution of failing financial institutions. The Corporation's DRR is responsible for resolving troubled financial institutions and selling assets at the least cost and highest recovery to the Corporation's insurance funds.

Fundamental to selling assets for the least cost and highest recovery are the practices developed by DRR to establish asset prices and evaluate the bids received on the failing institution. The asset prices are established using the Asset Valuation Review process.

DRR uses the Risk Analysis and Value Estimation (RAVEN) application to support the Asset Valuation Review process by determining asset samples

and calculating asset values. The Asset Valuation Review reports generated by RAVEN are instrumental in determining the least costly resolution of the institution. RAVEN is used to prepare the bid packages given to prospective failing institution bidders and establishes valuations for assets to be liquidated by the FDIC. Institution regulators are charged with maintaining strict confidentiality in matters related to potential institution failures. Consequently, RAVEN contains extremely confidential information related to the institution's asset values and liabilities.

We conducted an audit to determine whether security and controls over the RAVEN data, application software, and operating environment were adequate. We concluded that RAVEN data and operating environment security control practices were not adequate to protect sensitive data. Further, application security and control practices had not been implemented to ensure that application documentation was prepared and retained. Finally, adequate change controls had not been implemented. We made seven recommendations to address these concerns. Management had either completed or was in the process of taking action on all recommendations as of the date of report issuance.

The FDIC's Dividend Processing System

Our audit addressed the FDIC's Dividend Processing System (DPS), the Corporation's accounting application used to determine payment amounts and the corporate system of record for dividends paid to the holders of receiver certificates from failed institutions. DPS generates payment requests based on receivership certificates, administrative expense, and funds available for distribution.

DPS generally met user requirements and improved the efficiency and effectiveness of the dividend payment process. Although

DPS was operating as intended, inconsistencies in data structure and content between DPS and the Receivership Liability System (RLS), the FDIC system that issues valid receiver certificates, raised concerns regarding the reliability of DPS data on which dividends are computed and paid. Additionally, some DPS general and application controls were not implemented before DPS was put into operation. Specifically, the Division of Information Resources Management (DIRM) did not obtain memorandums of agreement on data sharing or institute adequate change controls over the application's software, and the Division of Finance did not update its contingency plan or procedure manuals to reflect changes brought about by DPS. We recommended that the FDIC take steps to correct the inconsistencies between DPS data and data in the related applications. We also recommended that the Corporation implement certain general and application controls that were not in place at the time of our audit. Management has either completed or is taking action on our recommendations.

Additional IT Work

Other reviews during the reporting period covered the following matters:

Controls over Outlook Resources. The FDIC uses Outlook to provide electronic mail and calendar services to its employees. Our review determined that the FDIC's policies and procedures did not adequately protect data residing in Outlook folders. Guidance was lacking to properly control the use of Outlook settings that can permit other system users to have access to information created by or intended for the original user. As a result, sensitive data residing in e-mail messages and Outlook folders may not have been secured against unauthorized disclosure, deletion, or modification. The security risk was increased because the version of Outlook in use at the time could contribute to users inadvertently

assigning access to their personal folders to all Outlook users. The Corporation took action on the recommendations we made in this report.

The FDIC's Excess Computer Hard Drive Sanitation Procedures. We conducted this audit to determine whether the statement of work contained in DIRM's contract with its inventory management contractor complied with corporate policies and procedures and whether the corporate policies and procedures relating to removing data from excess computer equipment were adequate. We recommended measures to better ensure that all data are effectively removed from the Corporation's excess computers, and the Corporation promptly implemented new procedures in response. We also recommended that the Corporation test the new procedures to ensure their full effectiveness going forward.

Ensuring Sound Controls and Oversight of Contracting

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

Maintaining a strong system of internal controls and effective oversight of contracting is critical to the FDIC's success. The Corporation has taken a number of steps in this regard—training, revisions to the Acquisition Policy Manual, and Contractor Oversight working groups. A goal related to contractor oversight was added to the Corporation's Annual Performance Plan, which is formulated in accordance with the Government Performance and Results Act. The Corporation must sustain such efforts going forward.

Update on Prior OIG Work:

Corporation Reaches Settlement Agreement

On March 28, 2002, Ryland Mortgage Corporation and its parent, the Ryland Group, Inc., executed a global settlement agreeing to pay the FDIC \$5.4 million to settle all claims in connection with the servicing, administration, and termination of nine Resolution Trust Corporation (RTC) securitizations.

Ryland was the servicer for nine mortgage backed securities series issued by RTC. The FDIC, as successor to RTC, owned the reserve funds and residual interests associated with each series, all of which have now terminated. The servicing related disputes centered on Ryland's inappropriate calculation of realized losses by including excess interest and excess servicing fees as well as other servicing deficiencies. Both the Division of Resolutions and Receiverships (DRR) and the OIG did reviews of samples of Ryland's realized losses. DRR used the OIG's findings to support and bolster its claims against Ryland. The Legal Division conducted extensive negotiations with Ryland which resulted in this settlement.

Additionally, with increased downsizing and possibly more involvement of contractors to carry out the FDIC mission, effective oversight will become even more critical.

Projections of calendar year 2002 non-legal contract awards and purchases total 1,400 actions valued at approximately \$375 million. Information technology has always been one of the most active areas of contracting. As of March 31, 2002, there were more than 210 active information resources management contracts valued at approximately \$350 million that had been awarded in headquarters. Approximately \$185 million of this expenditure authority for active contracts had been spent and \$165 million remained to be used as of that date.

Contractor Billing Audit

We completed an audit of the billings of an FDIC contractor to the FDIC to determine whether the contractor's billings complied with the terms and conditions of the delivery order. The contractor provided

information technology and logistical services such as managing the automated inventory system and operating the equipment distribution centers for DIRM.

Our report contained two recommendations: one to disallow questioned costs of \$50,460 and another to determine whether requirements listed in a General Services Administration supply schedule

contract or those listed in the FDIC delivery order are applicable to the contractor and ultimately disallow any appropriate portion of the \$252,675 of unresolved costs we identified. The questioned costs were all related to billing the FDIC at rates higher than allowable based on employees' education and experience qualifications. Management agreed with both recommendations.

New Approach to Contract Audits

In coordination with the Division of Administration, we are developing a new approach to conducting audits of contractor billings as well as performance-type audits in the contracting area, and several audits are in process using the new approach. Audits of contractors will focus more specifically on contract provisions to determine the allowability of costs. Performance-type audits in the contracting area will focus on such issues as how well contracts are administered and the adequacy of contractor oversight. In the past, these objectives were often combined into one audit.



We plan to separate out any FDIC contract administration and oversight issues from our contractor audits and incorporate those issues into a performance-type audit where we can analyze trends and make more meaningful recommendations. Audits of contractors will have a narrow scope and a streamlined process, which should result in a shorter period needed to issue the final reports.

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 each agency's mission, vision, and strategic goals and objectives; an annual performance plan that translates the vision and goals of the strategic plan into measurable annual goals; and an annual performance report that compares actual results against planned goals.

The Corporation's strategic plan and annual performance plan lay out the agency's mission and vision and articulate goals and objectives for the FDIC's three major program areas of Insurance, Supervision, and Receivership Management. The plans focus on four strategic goals that define desired outcomes identified for each program area: (1) Insured Depositors Are Protected from Loss Without Recourse to Taxpayer Funding, (2) FDIC-Supervised Institutions Are Safe and Sound, (3) Consumers' Rights Are Protected and FDIC-Supervised Institutions Invest in Their Communities, and (4) Recovery to Creditors of Receiverships Is Achieved. Through its annual performance report, the FDIC is accountable for reporting

actual performance and achieving these strategic goals, 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, establishing processes to verify and validate reported performance data, and addressing crosscutting issues and programs that affect other federal financial institution regulatory agencies. The FDIC is committed to fulfilling both the requirements of the Results Act and congressional expectations that the performance plans and reports clearly inform the Congress and the public of the results and outcomes of the FDIC's major programs and activities, including how the agency will accomplish its goals and measure the results.

OIG Formulates Results Act Review Plan

In late 1998, the House Leadership formally requested that the Inspectors General of 24 executive agencies develop and implement a plan for reviewing their agencies' Results Act activities. 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 views on such a review plan represent an appropriate direction for all Offices of Inspector General.

OIG's Results Act Review Plan

The FDIC OIG is fully committed to taking an active role in the Corporation's implementation of the Results Act. We have developed a review plan to help ensure that the Corporation satisfies the requirements of the Results Act and maintains systems to reliably measure progress toward achieving its

strategic and annual performance goals. Our review plan consists of the following three integrated strategies:

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

OIG Reviews Draft FDIC 2002 Annual Performance Plan

During this reporting period, the OIG reviewed and provided advisory comments to management on the FDIC's draft 2002 Annual Performance Plan. Our comments were based in large measure on a consideration and analysis of corporate objectives and priorities emphasized by the FDIC Chairman at the February 2002 Leadership Conference for executive staff. We believe the high-level communication of clear corporate performance and accountability expectations at the conference was commendable and fully consistent with the concepts of the Results Act, including the concept of linking corporate performance to individual accountability.

Our comments included a comprehensive matrix analysis of the linkage between the Leadership Conference 2002 Performance Measures and the draft FDIC 2002 Annual Performance Plan. The Leadership Conference performance measures established performance objectives for 2002 that provide the framework for quarterly performance reporting and executive accountability to the Chairman. Our analysis of the linkage indicated that a substantial number of the Leadership Conference measures had not been fully incorporated in the draft FDIC 2002 Annual Performance Plan.

We suggested that management review the Leadership Conference performance measures and consider incorporating them as annual performance goals in the 2002 Annual Performance Plan, especially the corporate-level measures. Management officials agreed conceptually with our view and suggestions, but the timing was not sufficient to make adjustments in the 2002 plan. Management indicated they would consider our suggestions in the 2003 plan.

The OIG will continue to develop and refine its integrated oversight strategy to help ensure that the FDIC'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.

Update on Personnel Security Work

Corporation Makes Progress on Background Investigation Project

In our last semiannual report, we reported the results of a review that we conducted at the request of the Subcommittee on Oversight and Investigations, Committee on Financial Services, U.S. House of Representatives. The Subcommittee Chairwoman, Sue W. Kelly, requested that we evaluate the FDIC's policies, procedures, and practices under which the Corporation conducts, adjudicates, and documents background investigations of prospective and current employees. At the Corporation's request, we also assessed whether the Corporation had effectively implemented a process to ensure that proper risk designations had been assigned to FDIC's positions.

We determined that the FDIC needed to do more to ensure that all corporate positions have risk designations and that such designations are commensurate with assigned responsibilities and reflected accurately in corporate databases.

During this reporting period, the Corporation took significant action to address the recommendations in our report. With respect to our recommendation to redesignate position sensitivity levels for Division of Supervision and Division of Compliance and Consumer Affairs' positions to reflect public trust responsibilities, the Division of Administration received over 90 percent of the background investigation forms from over 2,500 examiners, and approximately 50 percent are currently with the U.S. Office of Personnel Management for investigation. Thus, the Corporation expects to complete the project well ahead of its initial estimated completion date. Action to address remaining open recommendations is ongoing.

Addressing Human Capital Issues

The FDIC has been in a downsizing mode for the past 10 years as the workload from the banking and thrift crises of the late 1980s and 1990s has been accomplished. Over that time-frame, the workforce (combined from the FDIC and the Resolution Trust Corporation) has fallen from approximately 23,000 in 1992 to 6,175 as of March 31, 2002. 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 Corporation is continuing to streamline its staff to reduce operational costs, especially its management overhead and program support costs. A number of division mergers and reorganizations are taking place or planned. By June 2003, the Corporation hopes to substantially complete required downsizing and

correct existing skills imbalances. To do so, the Corporation has in motion a comprehensive program that includes early retirement offerings, separation incentives, solicitations of interest, reassignments, retraining, outplacement assistance, and possible reductions-in-force. As the Corporation adjusts to a smaller workforce, it must continue to ensure the readiness of its staff to carry out the corporate mission.

The Corporation has predicted that almost 20 percent of FDIC employees will be eligible to retire within the next 5 years. The Corporation must continue to conserve and replenish the institutional knowledge and expertise that has guided the organization over the past years. Hiring and retaining new talent will be important, and hiring and retention policies that are fair and inclusive remain a significant component of the corporate diversity plan.

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

In that regard, during the reporting period the Corporation's Board of Directors approved construction of a new nine-story building at its Virginia Square office complex in Northern Virginia. This building will house FDIC staff for the most part now working in leased space in the District of Columbia. The expansion will cost approximately \$111 million; however, the Corporation anticipates substantial savings in the long run—more than \$78 million (in today's dollars) over the next 20 years. At the Division of Administration's request, the OIG will be conducting a type of pre-award audit to ensure that the process for soliciting and hiring contractors to perform the work of constructing the new site is carefully controlled and properly carried out.

To implement an overall successful human capital framework, organizations need information systems that allow managers to identify skills imbalances and project future needs. Also important is that the Corporation's human capital strategy and workforce planning system are directly linked to the FDIC's overall strategic and performance plans. The Corporation's 2001-2006 strategic plan includes workforce issues and a discussion of corporate resources.

The Corporation has established a Human Resources Committee. This committee is an executive steering committee that reports to the Chief Operating Officer and is responsible for developing policy recommendations regarding major human resource issues and monitoring implementation of

corporate human resource strategies. One priority of the committee is the Chairman's initiative to establish a corporate university and job rotation program, as announced at the February Leadership Conference.

Designing, implementing, and maintaining effective human capital strategies are critical to improving performance and accountability and must be the focus of sustained corporate attention. The OIG is conducting an evaluation review of aspects of the Corporation's human capital efforts. Our work is focusing on the design of the Corporation's current training, education, and development policies and programs to ensure the Corporation maintains a highly skilled workforce for handling anticipated and unforeseen workloads. We expect to issue the results of our work in the next semiannual report.

Containing Costs and Assessing Business Processes

The Corporation continues to try to identify and implement ways to contain and reduce costs, either through more careful spending or assessing and making changes in business processes to increase efficiency. As steward for the Bank Insurance Fund and the Savings Association Insurance Fund, the FDIC looks for cost reductions and efficiency improvements to minimize the draw on the funds.

The Corporation has taken steps to increase emphasis in this area. As discussed in the previous section of this report, savings will result from the Corporation's planned building of its new Virginia Square site. Several other initiatives are in process to better understand what the various business processes and activities within the FDIC cost, how they can be made more efficient, and how they compare to private and public sector entities. The Corporation may also need to recognize and plan for unmet needs which can add

to operating costs. Such needs may include, for example, further ensuring information resources security and building security.

FDIC Chairman Powell has underscored the importance of efficiency and effectiveness of the FDIC in various communications with FDIC employees. Certainly, the Corporation's planned organizational streamlining and downsizing will seek such efficiencies and economies. Additionally, the Corporation is evaluating the cost of certain corporate operations against appropriate benchmark organizations. The results of such studies will help the Corporation identify areas in which its costs may be higher than other organizations and potential "best practices" to reduce these costs.

Further, the Corporation is implementing a service costing initiative—new procedures to charge receiverships for services provided by the Corporation by applying standard rates. This initiative should also result in further allocation of receivership expenses. The OIG is conducting a review of the Corporation's efforts in this area.

OIG Work Evaluates Corporate Efforts for Efficiencies

Completed OIG work during the reporting period related to this major issue included a review of the FDIC's management of its headquarters-owned buildings and a review of the Corporation's planning for its New Financial Environment.

Regarding the headquarters-owned buildings, we recommended that the Corporation develop a policy that formally establishes a building management program that incorporates at a minimum, the following requirements:

- a comprehensive 5-year building management plan for each facility that is updated annually and includes estimated project costs;

- prioritization criteria for maintenance, repair, and improvement projects, with an emphasis on employee safety and legally required projects; and
- a deferred-maintenance reporting requirement that includes both the estimated present and future costs to correct deficiencies.

We also recommended that the Corporation assign a higher priority to installing fire suppressant sprinkler systems at several specific FDIC buildings.

With respect to the New Financial Environment, we conducted an evaluation to assess the reasonableness of the cost/benefit analysis and the system architecture vision prepared to plan the FDIC's future financial environment. We identified limitations in the cost/benefit analysis estimates, but the need to modernize the Corporation's financial management systems suggested that the Corporation should proceed with acquisition planning for a commercial off-the-shelf financial management system. We expressed concerns regarding the estimates, ambitious time frames, and uncertainties with what financial system components would be integrated or interfaced. We pointed out that the Board should have more complete and accurate information before approving such a large investment in technology. We therefore recommended that the Chief Financial Officer use an incremental two-case approval process to obtain the Board's approval to proceed with the New Financial Environment.

The Chief Financial Officer agreed with the spirit of our recommendation but explained that an incremental two-case approval process was not feasible within the existing budget and procurement plan cycle. However, the Chief Financial Officer indicated that the Board would establish parameters on funding and periodic reporting which

would impose external discipline on the process, and we considered these controls responsive to our concerns.

Update on Physical Security, an Emerging Issue From Previous Semiannual Report

In our last semiannual report, largely in light of the events of September 11, we identified an emerging issue that the FDIC needed to address: physical and personnel security. The Corporation has devoted considerable attention to these areas and continues to do so. It has enhanced important physical security features of its properties. It has worked to keep employees informed of security matters and events occurring in the Washington, D.C., area that may impact employee safety and security. It also developed a draft Emergency Response Plan on which the OIG provided extensive comments to the Chief Operating Officer during the reporting period.

OIG Offers Comments on Emergency Response Plan

In commenting on the draft plan, we noted that several lessons could be learned as a result of September 11, including the following:

- A system is needed to decide who will invoke the emergency response and when it will be done.
- The FDIC needs to have its own means for judging the scale of any emergency and what portions of its response plan will be implemented.
- FDIC employees and visitors within its workspace need an emergency evacuation warning system that can be triggered by those authorized to make emergency decisions.
- An evacuation plan needs to be in place to ensure the orderly and safe

evacuation of all employees and visitors in a timely manner.

- Communication and coordination is needed with any other government authorities who are relevant to the nature of the emergency, including federal law enforcement and other security forces; other federal and state banking regulatory authorities; and local government, police, fire, health, and emergency preparedness authorities as circumstances may dictate.
- A decision making process is needed for implementing a business continuity plan that can (1) ensure the continuous capacity of the FDIC and other federal and state banking regulatory authorities to ensure the safety and soundness of the nation's banking system and (2) bring about a resumption of other Corporation activities.

We indicated in our comments that the draft Emergency Response Plan met some of those needs, but not all of them. We communicated our comments to prompt further corporate analysis and planning.

We also completed fieldwork on an evaluation of the FDIC's physical security of Washington, D.C., area facilities during the reporting period. Our objectives were to assess whether the FDIC's security program was established and implemented to protect real and personal property, assess risks, make decision-makers aware of risks, and act promptly and appropriately in response to risks. We are continuing to perform fieldwork related to these same issues in FDIC field sites and will issue the results of our work in the upcoming semiannual reporting period.



Emerging Issue: The Quality of Bank Financial Reporting and Auditing

During the reporting period, the OIG brought the following emerging issue to FDIC management's attention.

Recent highly publicized business failures, including financial institution failures, have raised significant questions about the quality of financial reporting and auditing of these businesses. Various dimensions of this issue have been, and continue to be, widely discussed and reported in various forums, most notably with continuing congressional hearings on the failure of Enron Corporation. Aspects of the problem as it relates to financial institutions have been documented in recent OIG work on bank failures—Superior Bank as discussed earlier in this report, and Keystone Bank, as presented in prior semiannual reports. During the reporting period, the OIG shared its views on this issue with FDIC management in the Office of Internal Control Management and DOS. We suggested that the Corporation disclose and discuss the issue in its Chief Financial Officers Act Report as an internal control matter warranting continued monitoring. The Corporation determined that it would include the matter as an emerging issue in the Financial Industry Highlights section of the report.

The issues involve interrelated roles of management (including Boards of Directors and Audit Committees), independent auditors, and regulators. Management is primarily responsible for the reliability of financial reports with auditors providing an independent audit function and regulators relying on the financial data.

Affected regulators include the Securities and Exchange Commission as well as the FDIC and other financial institution regulators. The need for reliable financial data affects the ability of regulators to effectively achieve their

oversight missions. To the extent that the financial reporting of businesses (including financial institutions) is not reliable, the regulatory processes and mission achievement can be adversely affected. Financial institution regulators are affected by the quality of reporting of financial institutions and businesses transacting with financial institutions. Critical operational processes of financial institution regulators can be adversely affected. Essential research and analysis (used for economic analysis and decision-making) and bank supervision (examinations) can be complicated and potentially compromised by poor quality financial reports and audits.

In addition to supervision safety and soundness issues, the FDIC, in its roles as receiver and insurer, is potentially affected by financial reporting and audit quality, regardless of whether the FDIC is the primary federal regulator. Receivership management operations, relying on accounting and auditing contractors, can be adversely affected. Potentially, the insurance funds can be affected, for example, by financial institution and other business failures precipitated in whole or in part by financial reporting irregularities.

The financial reporting and audit quality issues are complicated by a number of interrelated risk factors, including: auditor independence; complexity and sophistication of business structures and transactions; adequacy and complexity of standards; fraud; auditors' document retention procedures; adequacy of auditor oversight; and qualifications and fitness of Audit Committees, Boards of Directors, and Officers.

The issues above have been acknowledged by various parties that function in an oversight capacity. For example, the Securities and Exchange Commission and the accounting profession have, to varying degrees, acknowledged most or all of these issues and initiated certain actions to address

some of them, although it is unclear exactly what may be done or how effective the potential solutions may ultimately be. Likewise, legislation to address a number of these issues is under consideration by the Congress. Moreover, in a recent speech to the American Bankers Association Community Bankers Conference, FDIC Chairman Powell raised concerns about the reliability of bank data and auditing as well as the possible need for more regulatory action in these areas.

We continue to believe that issues related to the quality of financial reporting and auditing of financial institutions (and businesses transacting with financial institutions) constitute a risk to regulators in effectively achieving their oversight responsibilities. We believe this risk is of significant magnitude to be acknowledged and monitored by the FDIC in its role as a financial institution regulator and insurer. Obviously, due to the nature of the risk (involving a lack of reliable quality data), the true magnitude and impact of the problem cannot be reasonably quantified or projected. However, the potential impact of the risk could be material and significant.

To further pursue aspects of this issue, the OIG is conducting an audit of FDIC examiner reliance on the work performed by independent public accountants.

OIG Identifies Possible Additional Funds To Be Remitted to the FDIC

During the reporting period the OIG completed an audit of the process that the FDIC's Division of Resolutions and Receiverships and Division of Finance used to identify and account for unclaimed deposits transferred to the FDIC and former Resolution Trust Corporation (RTC) from institutions that acquired failed banks and savings and loan associations. The FDIC and RTC subsequently transferred those unclaimed deposits to appropriate state unclaimed property agencies that accepted temporary custody of those funds for 10-year holding periods in compliance with the 1993 unclaimed deposits amendments to the Federal Deposit Insurance Act.

We determined that the FDIC's policies and procedures had not been effective in ensuring that all unclaimed deposits transferred to states were completely and accurately identified and recorded. Also, the amounts recorded in the FDIC's systems did not agree with amounts that state unclaimed property agencies reported to the OIG. The FDIC had also not adequately monitored the state agencies to determine the amounts of unclaimed deposits that should be returned to the FDIC at the end of the 10-year holding periods. We estimated that an additional \$1.45 million could be remitted to the FDIC if additional controls are established and consider this amount to be funds put to better use. This amount represents the net difference, reduced by the percentage of state-paid claims, between the FDIC's records and state-reported amounts for the 34 states and the District of Columbia that responded to our information requests.

FDIC management agreed with recommended action in our report but did not agree with the monetary benefits that we identified. The response stated that (1) amounts used in our calculation were based on unsubstantiated state-provided data and (2) the funds needed to be currently available and controlled to be classified as "funds to be put to better use."

Regarding the concern raised about "unsubstantiated state-provided data" in our calculation, we acknowledge that the reconciliation process will likely identify differences in amounts to be returned—in some cases less than initially estimated, in other cases more. However, our estimate was based on the best information available at the time of our review and is reasonable based on steps taken to be conservative. The estimate does not include deposits shown in FDIC systems for states that did not respond to the OIG's requests. However, the reconciliation process may ultimately identify amounts from those states that should be returned to the FDIC.

Regarding the need for the Corporation to currently have available and control the funds in order to classify them as "funds to be put to better use," we disagree. The intent of the IG Act requirement to identify funds to be put to better use is to provide a justification for the need to take corrective actions by estimating future monetary benefit of such action. It is unrealistic to conclude that the corrective action will not result in an increase in deposits returned to the FDIC just because the FDIC does not now control the deposits. We continue to believe that the corrective actions are justified because of the likelihood that more deposits will be returned if the actions are taken.

OIG Assists on Financial Statement Audit and Conducts Other Financial Management-Related Work

The OIG and U.S. General Accounting Office (GAO) continued to conduct the annual financial statement audits of the FDIC. During this semiannual reporting period, the OIG team capitalized on their understanding of the FDIC's financial management operations. In addition to their financial statement audit work, the OIG team simultaneously completed audits of several aspects of financial management performance. Those included an audit of the internal controls over the customer information and control system for the FDIC's financial systems and an audit of the capitalization of internal-use software development costs. Financial-management related work in process includes reviews of the Corporation's asset valuation review process and corporate controls in place to prevent improper payments.

Regarding the government-wide financial statement audit effort, during the reporting period the OIG submitted a letter to the Office of Management and Budget (OMB), Department of the Treasury, and GAO as required annually by the Treasury Financial Manual. This letter discussed procedures agreed upon by the OIG, OMB, Treasury, and GAO regarding the FDIC's assertion that it compared summarized data to general ledger balances in the FDIC's financial management system. Although the letter covers the fiscal year period ended September 30, 2001, the FDIC produces calendar year financial statements.



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, and Chicago, 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 in investigating criminal activity that may harm, or threaten to harm, the operations or the integrity of the FDIC and its programs. In pursuing these cases our goal, in part, is to bring a halt to the fraudulent conduct under investigation, protect the FDIC and other victims from further harm, and assist the FDIC in recovery of its losses. Another consideration in dedicating resources to these cases is the need to pursue appropriate criminal penalties not only to punish the offender but to deter others from participating in similar crimes.

Joint Efforts

The OIG works closely with U.S. Attorney's Offices throughout the country in an attempt 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 New Jersey, the Northern District of Ohio, the Central District of Illinois, the Southern District of Iowa, the Southern District of West Virginia, the Northern District of Georgia, the Northern District of Mississippi, the Western District of Oklahoma, the Northern District of Texas, the Western District of Texas, the Central District of California, and the District of Hawaii.

Investigative Statistics

October 1, 2001 - March 31, 2002

Judicial Actions:

| | |
|--------------------------------|----|
| Indictments/Informations | 21 |
| Convictions | 11 |

OIG Investigations Resulted in:

| | |
|-------------------------|----------------------|
| Fines of | \$34,000 |
| Restitution of | \$531,312,940 |
| Civil Settlements | 5,000,000 |
| Total | \$536,346,940 |

Employee Disciplinary Actions

| | |
|--------------------|---|
| Terminations | 1 |
| Suspensions | 1 |

Cases Referred to the Department of Justice (U.S. Attorney).....18

Referrals to FDIC Management.....4

OIG Cases Conducted Jointly with Other Agencies.....59

Support and cooperation among other law enforcement agencies is also a key ingredient for success in the investigative community. We frequently "partner" with the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS), the Secret Service, and other law enforcement agencies in conducting investigations of joint interest.

Results

Over the last 6 months, OI opened 21 new cases and closed 36 cases, leaving 102 cases underway as of March 31, 2002. Our work during the period led to indictments or criminal charges against 21 individuals and convictions of 11 defendants. Criminal charges remained pending against 21 individuals as of the end of the reporting period. Fines, restitutions, and recoveries stemming from our cases totaled over \$536 million. The following are highlights of some of the results from our investigative activity over the last 6 months:

Fraud Arising at or Impacting Financial Institutions

Update on Prosecutions Resulting from Investigation of Failure of the First National Bank of Keystone

As has been the case in our last several reports, we are again reporting additional results emanating from the investigation involving the failure of the



First National Bank of Keystone (West Virginia). The investigation and prosecutions involving Keystone are being conducted by a multi-agency task force composed of special agents of the FDIC OIG, FBI, and IRS and prosecutors from the United States Attorney's Office for the Southern District of West Virginia and the U.S. Department of Justice. The FDIC Division of Resolutions and Receiverships has also

provided valuable assistance in support of the task force investigations.

An examination that was conducted by the Office of the Comptroller of Currency in 1999 uncovered information that ultimately resulted in the closure of the First National Bank of Keystone (Keystone) on September 1, 1999. Based on the estimated losses to the insurance fund attributable to the Keystone failure, it is 1 of the 10 most costly bank failures since 1933.

The investigation initially targeted the attempts of the bank principals to obstruct the examination of the bank. Following the successful prosecution of several of the bank officers on obstruction charges, the task force turned its focus to the underlying fraud in the operation of the bank that led to its failure. During the current reporting period, the former bank chairperson of Keystone, who was also formerly the mayor of Keystone, was convicted in October 2001 on 16 counts of money laundering and conspiracy to embezzle funds from the estate of J. Knox McConnell, who was the institution's president until his death in 1997. In March 2002, she was sentenced to serve 16 years and 5 months in prison to be followed by 3 years of supervised probation and was ordered to pay \$6.12 million in restitution. During the same trial in October 2001, the former senior executive vice president and chief operating officer was convicted on four counts of embezzlement, four counts of mail fraud, and a single conspiracy count. In March 2002, she was sentenced to 22 years and 7 months in prison to be followed by 3 years of supervised probation and was also ordered to pay \$6.12 million in restitution. She is also currently awaiting sentencing in connection with her guilty plea in January 2002 to a criminal information charging her with bank fraud and conspiracy to commit money laundering. She is currently in prison serving a 57-month sentence, which she received in July 2000 following her conviction on charges of

obstructing the examination of the bank that ultimately resulted in its closure. Her most recent jail term is to be served consecutively with the prior sentence.

On December 17, 2001, five other former officials of Keystone were sentenced in U.S. District Court for the Southern District of West Virginia in connection with their prior guilty pleas to various illegal conduct involving their employment at the bank. The former executive vice president of Keystone Mortgage Corporation, a subsidiary of Keystone, was sentenced to 12 1/2 years in prison to be followed by 5 years of probation. He was also ordered to pay \$515 million in restitution. He was already in prison serving a sentence in excess of 4 years for obstructing the examination of the bank in 1999 that resulted in its closure. Following his sentencing in July 2000 in the obstruction case, he pled guilty in November 2000 to charges of conspiracy, money laundering, and bank fraud. His most recent sentencing was on those charges. A news article by the Associated Press on the sentencing reported the following comments by the sentencing judge: "I felt like anything less would not be sufficient. It's difficult to measure the harm and suffering caused by what has happened here. Many people lost their life savings." Based on an assessment of what he is currently able to afford, the former executive vice president was ordered to make monthly payments of \$300 toward the restitution.

Also sentenced on December 17, 2001 were:

- The former vice president and cashier of Keystone who was fined \$5,000, ordered to pay \$440,000 in restitution, and ordered to spend 8 months' confinement in a halfway house based on her prior plea of guilty in May 2001 to one count of insider trading. The charge resulted from her sale of approximately \$440,000 in Keystone stock about 2 months before the bank was declared insolvent and closed by

the Office of the Comptroller of the Currency.

- The former vice president and head bookkeeper who was sentenced to 3 years' probation and fined \$5,000 based on her prior plea of guilty in June 2001 to one count of obstruction of an examination of a financial institution.
- The former vice president and proof operator of Keystone who was sentenced to 3 years' probation and fined \$3,000 based on her prior plea of guilty in June 2001 to one count of obstruction of an examination of a financial institution.
- The former vice president of the mortgage company who was sentenced to 5 years' probation and fined \$4,000 based on her prior plea of guilty in July 2001 to two counts of filing false income tax returns.

As a special condition of their sentences, all five defendants who were sentenced in December were also permanently banned from working at or being affiliated with any federally-insured financial institution.

Former President and Two Former Board Members of Hartford-Carlisle Savings Bank Indicted for Bank Fraud and Obstruction of an Examination; Two Other Former Officials of the Bank Plead Guilty to Illegal Conduct

On November 27, 2001, a federal grand jury in the Southern District of Iowa returned a 34-count indictment charging the former president of the now defunct Hartford-Carlisle Savings Bank (HCSB), Carlisle, Iowa, and his two brothers, both of whom were former board members of HCSB, with various bank fraud-related activities.

As alleged in the indictment, the three brothers made false representations to Firststar Bank to obtain \$1.75 million in loans, which they used to gain control of HCSB. The brothers



lied to the Federal Reserve Bank regarding the source of funds used for the purchase of the bank. They also allegedly falsified documents to conceal \$2 million in fraudulent loans from HCSB that were used, in part, to repay Firststar. The former president is also accused in the indictment of misleading FDIC officials by creating and providing fraudulent documents to FDIC examiners and by removing proof tapes and loan documents from the bank. The missing items were subsequently recovered during a search warrant obtained by the FDIC OIG and executed by the OIG and FBI.

According to the indictment, the brothers used proceeds from fraudulent loans from HCSB to buy property, sport utility vehicles, and pleasure items. The indictment includes a forfeiture claim through which the government seeks possession of all property acquired through the alleged fraud. Listed specifically in the forfeiture claim are: a condominium at Tenderfoot Lodge in Keystone, Colorado; land and a custom-built home in Randleman Ridge in Carlisle; 60 acres of property in Carlisle; a cabin located in Clear Lake, Iowa; a 1999 Cobalt power boat; a 1999 Chevrolet Tahoe; a 1999 Chevrolet Suburban; stocks; and home entertainment equipment.

On January 17, 2002, another former director of HCSB pled guilty in U.S. District Court for the Southern District of Iowa to a one-count information charging him with making false statements to HCSB. In addition to being a former director of HCSB, the defendant was also a shareholder in the HCSB's holding company. His plea relates to a loan application he submitted to HCSB as president of an oil company wherein he stated that the specific purpose of the \$500,000 loan was for "term/equipment." Upon receipt of the loan proceeds, he invested the

money in the bank holding company, thus injecting capital into HCSB.

On February 21, 2002, a former vice president and director of HCSB pled guilty in U.S. District Court for the Southern District of Iowa to a one-count information charging him with making a false statement to the FDIC. In his position with the bank he submitted Consolidated Reports of Condition (call reports) to the FDIC. The information to which he pled guilty charges that he submitted a call report to the FDIC on behalf of HCSB covering the period ending June 30, 1999 that failed to identify the existence of a \$1 million loan made by the bank to the former president of HCSB.



HCSB was an FDIC-regulated institution that was closed on January 14, 2000 by the Iowa Division of Banking and was reopened the next day under new ownership. State banking regulators questioned the validity of about \$6 million in loans when the bank was closed. The FDIC removed the president, who is now facing criminal charges, a week before the bank was closed. At the time, the FDIC concluded that he had probably engaged or participated in acts, omissions, and practices that constituted "violations of law and regulations, unsafe or unsound banking practices and breaches of his fiduciary duties to the bank."

This case is being investigated jointly by the FDIC OIG and the FBI and is being prosecuted by the U.S. Attorney's Office for the Southern District of Iowa.

Former Chairman of Bank of Honolulu Pleads Guilty and is Sentenced for Wire Fraud and Bankruptcy Fraud

On March 21, 2002, the former chairman and owner of 76 percent of shares of the now-defunct Bank of Honolulu was sentenced in the U.S. District Court in Honolulu, Hawaii, to 36 months of incarceration to be followed by 5 years of supervised release. However, he will be subject to immediate deportation upon release from confinement. As part of the sentencing, he was also ordered to pay

restitution totaling \$3,115,523. He has paid \$2,051,861, leaving an unpaid balance of \$1,063,662 of restitution. The defendant had previously pled guilty in October 2001 to violating the federal wire fraud statute as part of a scheme whereby he and his brother fraudulently obtained the proceeds of two loans totaling \$3 million made by the Bank of Honolulu. He also pled guilty to knowingly and fraudulently concealing property as part of the bankruptcy proceeding he filed in 1998. The bankruptcy fraud violations involve two tax refund checks from the State of Hawaii totaling \$757,249, which he received and failed to turn over to the Bankruptcy Trustee.

As we previously reported, the defendant was initially indicted in August 2000 and was charged with additional violations in superseding indictments in October 2000 and May 2001. The latter superseding indictment also included charges against five other individuals who were alleged to have helped him hide money from the bankruptcy court and creditors. The additional defendants included two of

his brothers, two of his business associates, and his girlfriend.

As a condition of his plea agreement with the government, all other charges against him were dropped, as were the charges against his girlfriend and one of his brothers. The charges in the second superseding indictment against his two business associates and his other brother still remain outstanding.

This case was jointly investigated by the FDIC OIG and the FBI and was prosecuted by the United States Attorney's Office for the District of Hawaii.

Former Vice President of First State Bank of Pekin Pleads Guilty and Is Sentenced for Misapplication of Bank Funds

On March 14, 2002, the former vice president of residential real estate lending at the First State Bank of Pekin (Illinois) was sentenced in the U.S. District Court for the Central District of Illinois to 3 months of home detention to be followed by 2 years of probation and was fined \$2,000. The sentencing followed the defendant's prior plea of guilty in December 2001 to a charge of misapplication of bank funds.

As described in the Plea Agreement and Stipulation of Facts, the defendant admitted that he had created unauthorized loans by altering documents and other deceptive means and funded them by using unauthorized cashier's checks. As a part of his ongoing scheme, he also funded the unauthorized loans using various methods including using customer loan payments and unauthorized draws from customers' construction loans. In total, the former vice president created or otherwise manipulated, all without authorization, 37 loans with a composite value of over \$2.5 million. He subsequently admitted his complex manipulations to the executive vice president of the bank and was fired. He also detailed his activities to the agents of the FDIC OIG and FBI who conducted a joint investigation of this matter. He

paid the bank approximately \$54,000 to cover any deficit he caused the bank, and the bank's insurance covered associated costs and some anticipated loss. Therefore, the bank's loss was negligible. The plea agreement, which allowed him to plea to a single count of misapplication of less than \$1,000 of bank funds, reflected his acceptance of responsibility, the negligible loss to the bank, and his cooperation in the investigation. He also voluntarily signed a consent order in September 2000 prepared by the FDIC prohibiting him from any future employment by, or affiliation with, a federally-insured financial institution.

Former Loan Secretary Sentenced for Embezzling from Bank of Falkner

On February 25, 2002, a former loan secretary at the Bank of Falkner (Mississippi) was sentenced in the U.S. District Court for the Northern District of Mississippi to serve 3 years of probation, perform 150 hours of community service, and pay \$21,040 in restitution to the FDIC. As previously reported, the defendant pled guilty in September 2001 to a one-count information charging her with embezzling \$21,040 from the bank. The FDIC OIG is conducting a joint investigation with the FBI regarding suspected fraudulent activity that occurred at the bank prior to its failure on September 29, 2000. As a part of her plea agreement with the government, she is cooperating with this ongoing investigation. Information obtained by the FDIC Division of Resolutions and Receiverships during its post-closing review of the bank has significantly assisted the investigation.

Former President of Oakwood Deposit Bank Indicted on Charges of Embezzlement and Money Laundering

On February 26, 2002, the former president and chief executive officer of Oakwood Deposit Bank Co., Oakwood, Ohio, was indicted by a federal grand jury in the Northern District of Ohio on

charges of embezzlement and money laundering. He had previously been arrested on February 2, 2002 based on a complaint alleging similar illegal conduct.

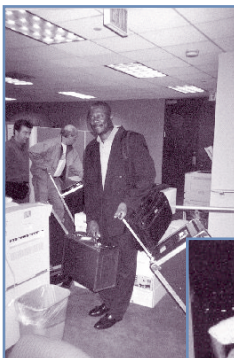
The FDIC closed Oakwood Deposit Bank on February 1, 2002 after the discovery of information indicating irregularities in the amount of deposits reported in the records of the bank. According to the charges filed against him, the former president is alleged to have used approximately \$40 million of the bank's funds to invest in gambling boats located in South Carolina and Florida. Part of the evidence used to support the charges against him was seized during a search of his home.

This investigation is being conducted jointly by agents of the FDIC OIG, the IRS Criminal Investigations Division, and the FBI. Prosecution of the case is being handled by the U.S. Attorney's Office for the Northern District of Ohio.



The OIG's Electronic Crimes Team

In our last report we described the formation of an Electronic Crimes Team (ECT) in the Office of Investigations to provide technology assistance during investigations. Currently, the ECT is staffed by two agents and a supervisor, all of whom have been trained as Seized Computer Evidence Recovery Specialists (SCERS). Additionally, over \$50,000 worth of computer forensic hardware and software has been procured to enable the SCERS to conduct forensic examinations both in a fixed lab that has been established in Washington and in a mobile lab that can be established at investigative sites where ECT support is needed.



Harvey Witherspoon leads the ECT.



Atlanta OIG agents and ECT agents coordinate at Hamilton Bank closing.

At the closing of Hamilton Bank in Miami, Florida, in January 2002, the OIG initiated an investigation to pursue suspected fraud that may have occurred at the bank prior to its closure. To assist in preserving possible evidence, the ECT participated at the bank closing and successfully imaged over 20 of the bank's computers. Subsequently, the ECT participated at the closings of Bank of Sierra Blanca in Sierra Blanca, Texas; Nextbank in San Francisco, California; Oakwood Deposit Bank in Oakwood, Ohio; Net First National Bank in Boca Raton, Florida; and New Century Bank in Shelby Township, Michigan. The OIG has initiated investigations of possible illegal activities that may have occurred at each of these institutions prior to their closings.

Former Officer Indicted for Misapplying Funds of the Institution for Savings of Newburyport, Massachusetts

On March 6, 2002, a former officer of the Institution for Savings (IFS) of Newburyport, Massachusetts, was indicted by a federal grand jury in the District of Massachusetts on 59 counts of misapplying funds. As alleged in the indictment, the former officer of IFS misapplied a total of approximately \$162,000 between February 1997 and March 2001 by negotiating her personal checks at IFS and then removing them from the bundle of items that IFS was sending to the Federal Reserve Bank for processing. Later, when the missing amounts were reported back to IFS, she would make entries in the books and records of IFS to conceal the missing funds. The indictment also includes a forfeiture allegation through which the government seeks to recover the proceeds of the alleged illegal misapplication of funds.

The investigation of this case is being conducted jointly by agents of the FDIC OIG and the FBI who arrested the defendant on March 8, 2002. Prosecution of the case is being handled by the United States Attorney's Office for the District of Massachusetts.

Customer Pleads Guilty to Conspiring to Defraud First State Bank of Harrah

On January 31, 2002, a customer of the First State Bank of Harrah (FSBH), Harrah, Oklahoma, entered a plea of guilty in the U.S. District Court for the Western District of Oklahoma to a one-count information charging him with conspiring to defraud the bank. The customer of FSBH was heavily indebted to the bank. The information to which he pled guilty charges that from August through December 1998 he conspired with a former executive vice president of FSBH and others in a scheme to defraud the bank by creating two forged FSBH cashier's checks totaling \$1,052,000. The checks listed the defendant as the remitter, although he

had not expended any funds to purchase those checks.

As previously reported, the same former executive vice president of FSBH and another customer pled guilty in February 2001 to conspiracy to defraud FSBH by creating a series of 11 fraudulent nominee loans. Both are still awaiting sentencing on those charges.

The investigation of the activities involving FSBH is being conducted jointly by the FDIC OIG and the FBI; the case is being prosecuted by the U.S. Attorney's Office, Oklahoma City, Oklahoma.

Owner of Company Providing Automated Teller Machine Services Indicted for Wire Fraud, Bank Fraud, and Money Laundering

On January 30, 2002, the owner and president of two companies, an armored car service company and a company that owns and operates automated teller machines (ATMs), was indicted in the U.S. District Court for the District of Colorado on 10 counts of wire fraud, 33 counts of bank fraud, and 3 counts of money laundering.

The indictment alleges that between January 1998 and March 1999, the defendant devised a scheme to fraudulently obtain money and property from BestBank, Boulder, Colorado, and the Pueblo Bank and Trust Company (PB&T), Pueblo, Colorado. In total he is alleged to have obtained and misappropriated in excess of \$9 million in bank funds for his own use and the use of others.

The indictment charges that he obtained cash from BestBank and PB&T to stock and operate ATMs that were owned by one of his companies. However, he periodically ordered more cash than was needed. He then commingled the extra cash with cash obtained to stock ATMs that his other company had contracted to service. As a part of the scheme, he is also alleged to have provided BestBank with spreadsheets and fabricated cash logs

falsely depicting that his ATM service company was housing millions of dollars of BestBank's cash in its vaults in Dallas and Houston, Texas. He used the money generated by the scheme, in part, to fund his consolidation and control of the ATM service company and to finance a rapid expansion of the company.

Pursuant to a warrant issued by the U.S. District Court, the defendant was arrested in Dallas, Texas, on February 1, 2002 by agents of the FDIC OIG and the FBI, who are conducting a joint investigation of this matter. The U.S. Attorney's Office, District of Colorado, Denver, Colorado, is directing the prosecution of this case.

Assets of Construction Company Seized and Bank Accounts Frozen

Following an asset sale on Saturday, October 13, 2001 that was held by a construction company located in Blountsville, Alabama, agents from the FDIC OIG and FBI seized over \$70,000 in proceeds and some unsold items including a semi-tractor trailer and two motorcycles. On the following Monday, all of the company's bank accounts were frozen pursuant to a U.S. District Court order. These actions were taken as a part of an ongoing investigation being conducted by agents from the FDIC OIG, FBI, and IRS dealing with suspected fraud involving Community Bank, Blountsville, Alabama.

Misrepresentations Regarding FDIC Insurance or Affiliation

Former Financial Relationship Manager for Bank of America Texas Ordered to Pay \$496,475 in Restitution

On November 5, 2001, an amended judgment was filed in the U.S. District Court for the Western District of Texas ordering a former financial relationship manager with the Bank of America (BOA) Texas, N.A., San Antonio, to pay restitution of \$496,475.

As previously reported, this defendant and his former accomplice, who owned a San Antonio investment



company, pled guilty to criminal charges in connection with their scheme to defraud six investors by misrepresenting to them that BOA certificates of deposit (CD) totaling approximately \$433,000 were issued in their names. In doing so they also misrepresented that the CDs were FDIC-insured. In fact, the six CDs were issued in the name of the investment company on BOA's records and then pledged as collateral on loans.

Following his guilty plea in January 2001 to one count of 2nd-degree theft and one count of 1st-degree securities fraud under the Texas Penal Code, the accomplice was sentenced in April to 15 years' imprisonment, fined \$1,000, and ordered to pay \$382,985 in restitution. The former BOA employee pled guilty in November 2000 to two counts of making and issuing forged securities, and in January 2001 he was sentenced to 15 months' imprisonment to be followed by 3 years' probation. Restitution was not ordered at the time of his sentencing due to ongoing plea negotiations with his accomplice. However, the most recent amended judgement setting the restitution amount completes the criminal prosecution of this case.

Iowa Resident Sentenced After Pleading Guilty to Using Counterfeit Documents to Pose as an FDIC Special Agent

On March 22, 2002, a former customer of Hartford-Carlisle Savings Bank, Carlisle, Iowa, and Firststar Bank, Des Moines, Iowa, was sentenced in the U. S. District Court in the Southern District of Iowa to 36 months' probation. The customer had been indicted in October 2001 on two counts of counterfeiting a document of the FDIC and two counts of uttering the counterfeited documents (that is, passing them to financial institutions). In December 2001 he pled guilty to using a counterfeit document in his dealings with Firststar Bank.

As alleged in the indictment, the customer forged two documents on FDIC DRR letterhead purportedly signed by a "Special Agent" that he submitted

to the two financial institutions in order to maintain checking account privileges. The letters indicated that his accounts had been compromised by fraudulent activity at Hartford-Carlisle Savings Bank, referencing an ongoing criminal investigation being conducted by the OIG and the FBI at that bank.

The customer had previously accepted full responsibility for his actions and entered into an agreement for pretrial diversion in November 2000, whereby he agreed to abide by certain specified conditions for a period of 12 months and to perform 100 hours of unpaid community service. However, the United States Attorney's Office for the Southern District of Iowa terminated the agreement when it learned that he had violated one of the conditions. Subsequently, he was indicted as described above on the same alleged conduct that precipitated the prior pretrial diversion agreement.

Restitution and Other Debt Owed the FDIC

Bank Fraud Felon Agrees to Pay \$5 Million to FDIC

On March 5, 2002, a settlement agreement between the United States and a real estate developer was filed and accepted in the U.S. District Court for the District of Massachusetts whereby the defendant agreed to pay \$5 million he owes the FDIC as result of a restitution order imposed on him following his conviction on bank fraud charges in 1991. Pursuant to the terms of the agreement, he paid \$500,000 in March 2002 and will pay the remaining amount in installments over the next 5 years. The settlement money will go to the FDIC as the successor of the two now defunct banks that he was convicted of defrauding.

The agreement was reached to settle a pending civil suit that was filed by the U.S. Attorney's Office for the District of Massachusetts in October 2000 against the developer and a number of other individual and

corporate defendants. In the suit the United States alleged that the developer, who was also sentenced to 5 years' imprisonment following his bank fraud conviction, is the "true owner" of Bay Communities, a real estate company based in Palm Coast, Florida, that develops luxury waterfront condominiums throughout Florida's east coast.

The government alleged in the suit that the defendant operated Bay Communities while in prison and continued to control it after his release on parole. According to the lawsuit, he used his girlfriend, who is listed as the company's CEO, to hide his control and thereby avoid paying the restitution. At the time the suit was filed, he had paid \$40,000 of the restitution and maintained that, as an employee of Bay Communities, he could only afford to pay \$1,500 of the restitution every month.

When the suit was filed, the defendant and his girlfriend were living together in an 8,535 square-foot home with an assessed value of \$3.9 million. She was listed in property records as the owner of the home, which is located in an exclusive development in Boca Raton, Florida.

As a part of the settlement agreement, the girlfriend executed a personal guarantee for the entire \$5 million. In addition, both the defendant and his girlfriend executed an Agreement for Judgement that will be held in escrow by the United States Attorney's Office and will be filed in the event of a default. The agreement further provides that the United States may reinstitute the civil suit in the event of default by either.

In addition to the defendant and his girlfriend, the suit named a number of other defendants that were alleged to have been involved in one or more of the 17 different trusts, companies, and corporations the developer had created beginning in 1994. A settlement agreement with one of those other

defendants was also filed on March 5, 2002, and similar agreements are being negotiated with the remaining individual defendants named in the suit.

Strawbuyer Sentenced for Perjury

A financial facilitator who purchased an asset from the FDIC was sentenced in U.S. District Court for the District of Massachusetts to serve 6 months' home detention and 2 years' supervised probation and was fined \$5,000. As reported previously, the defendant had pled guilty to one count of making a false declaration to a federal grand jury.

During the late 1970s and through the early 1990s, the defendant served as a commercial loan officer for several financial institutions. He also worked for a short time in the Resolution Trust Corporation (RTC) receiverships and was a workout specialist with the RTC/FDIC Franklin Office. In 1994 he agreed to a removal order issued by the FDIC prohibiting him from participating in the conduct or affairs of, or exercising voting rights in, any insured institution without the prior consent of the FDIC. Subsequently, he began providing services to individuals who owed money to the FDIC and RTC to help them workout their debts. His plea of guilty to perjury was in connection with his testimony before a federal grand jury that was investigating purchases of assets from the FDIC. The defendant purchased an asset from the FDIC in 1994 and resold it 4 months later to the original owner.

Employee Activities

DOS Associate Examiner's FDIC Employment Terminated

By letter dated December 3, 2001, a grade-12 Associate Examiner in the Lubbock, Texas, office of the Division of Supervision (DOS) was notified that his employment with the FDIC would be terminated effective December 5, 2001. The termination was based, in part, on information obtained during an OIG investigation which disclosed conduct unbecoming an FDIC employee including using FDIC equipment to conduct stock trading activities on official time, lying to his supervisors regarding these activities, and requesting that the OIG Special Agent who interviewed him provide false information to his supervisor regarding the interview. The OIG investigation was conducted based on a referral from DOS. The employee's termination was also based on unsatisfactory performance.

Information Systems Assistant Suspended Following OIG Investigation of Missing Computer Equipment

An investigation conducted by the OIG at the request of the FDIC's Security Management Section resulted in a 30-day suspension from duty and pay of an Information Systems Assistant employed in the FDIC Division of Administration. At the direction of his former supervisor, the employee reported the missing equipment to the FDIC Security Management Section. After conducting a preliminary inquiry, the security office referred the matter to the OIG for further investigation. Although the employee initially claimed he did not have the equipment or know where it was, it was subsequently located and retrieved during a consensual search of the employee's residence conducted by OIG special agents.

Former Examiner Arrested for Filing False Claims with the FDIC

On March 1, 2002, special agents of the OIG arrested a former examiner with the FDIC's DOS. The OIG initiated an investigation of the former employee based on a referral by DOS indicating she may have submitted false claims to the FDIC for reimbursement of relocation-related expenses. The warrant issued for her arrest was based on an affidavit by the OIG case agent, which set forth facts obtained during the investigation. As described in the affidavit, between February and May 1998, the employee submitted vouchers for relocation-related expenses totaling \$32,978. Included in the expenses claimed on those vouchers were inflated charges for temporary quarters. The employee terminated her employment with the FDIC in May 2000.

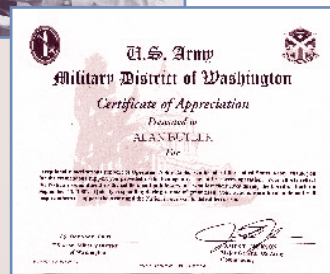


Update on Office of Investigations' Response to Requests for Assistance in Terrorist Investigations

During the month of October, two Office of Investigations Special Agents were assigned to the New York Joint Terrorism Task Force (JTTF), which is composed of approximately 22 federal agencies, including agents from 16 Offices of Inspector General and several hundred New York Police Department detectives. The JTTF is investigating leads possibly related to terrorism that are received by the government via special 800 numbers and Web sites as well as information from other government entities. Since its inception following the attacks of September 11th, the JTTF has followed up on thousands of leads and made a number of arrests, primarily for immigration violations. FDIC OIG agents participated in the arrests of five individuals during the course of this assignment and were involved in a number of investigations, some of which remain ongoing due to additional information of interest being developed. One OIG agent's detail ended on October 18 and the other's on October 26. The agents spent a combined total of nearly 400 hours on this assignment. No additional OIG support of the New York JTTF is planned at this time.

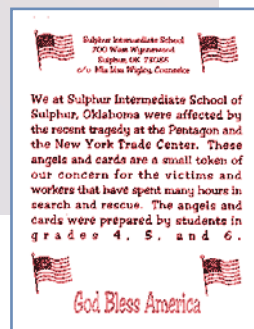


IG acknowledges special agent's assistance in terrorist investigations.



During this period the Office of Investigations also completed a review of financial records of 30 now-defunct financial institutions looking for information on the terrorists or suspects. This work was performed in response to a request by the Federal Bureau of Investigation's (FBI) Financial Crimes Section for special assistance from the OIG community in investigating the funding used to perpetrate the recent acts of terrorism and links to possible future acts.

As described in our previous report, in September 2001, seven OIG special agents participated in the Evidence Recovery Team at the Pentagon in response to a request by the FBI and the Department of Defense for assistance. On February 4, 2002, the Inspector General presented certificates of appreciation from the U.S. Army to the seven Office of Investigations Special Agents who volunteered for this duty. Each agent also received an angel and a card prepared by the students in grades 4 through 6 of Sulphur Intermediate School in Sulphur, Oklahoma. In total, the students made and sent over 300 angels and cards to be presented to rescue workers at the terrorists' attack sites, concentrating mostly on the people who worked at the Pentagon site.





The OIG believes a spirit of partnership is essential in conducting its work. In this spirit, we have continued to seek opportunities to strengthen our relationships both within the Corporation and with other audit and regulatory groups. Through joint efforts, conferences, and meetings, we have coordinated our work with the FDIC and shared best practices and information regarding current and emerging issues in the banking industry and with others in the audit community.

During this reporting period, the new Chairman presented his comprehensive vision for a smaller, revitalized FDIC that is reorganized, refocused, accountable, and more proficient. He stressed that for the FDIC to fulfill its responsibilities, it must be the leader in several areas: banking information, research, and analysis; supervision; and policy. He also announced a commitment to creating a flexible workforce that is knowledgeable and ready. He advocated an FDIC University to promote corporate identity and learning all aspects of the Corporation's mission and a job rotation program to help cross-train staff. He placed a high priority on further streamlining and realigning the Corporation through an early-out and buyout opportunity followed by a reduction-in-force, if necessary. These measures will focus a greater percentage of the Corporation's resources on risk assessment and management. As the Corporation identifies its priorities and develops its strategies to operate into the future, the OIG recognizes it must stay abreast of the Corporation and reevaluate its priorities and strategies in light of the Corporation's needs.

Realignment of Resources

The OIG has taken several steps during this reporting period that parallel various aspects of the Chairman's vision, including expanding its efforts to streamline its workforce and work processes. The Inspector General called

for a similar shift in the way the OIG perceives itself and its business with a smaller, more flexible workforce that is aligned with the OIG's mission. He announced that the OIG will participate in the Corporation's early-out and buyout program and modify its structure to realign OIG operations with the critical business of the FDIC, geographically as well as functionally. This will result in restructuring and reducing the workforce and reallocating resources within the OIG.

Our Office of Audits will organizationally align along four strategic objectives, with one crosscutting directorate. The major directorates will be: (1) Supervision, Insurance and Consumer Affairs; (2) Resolution, Receivership, and Legal Affairs; (3) Information Assurance; (4) Resource Management; (5) and Corporate Evaluations. Other OIG offices are restructuring geographically and/or combining functions and seeking ways to improve overall process efficiencies.

Building Relationships

We value opportunities to communicate about our work and work processes and practices as a way to improve and add impact to our work. During this reporting period we sought additional opportunities to discuss our work and also provided the Corporation with technical assistance in a number of ways. Executives from the Office of Audits and other OIG audit staff met with FDIC executives and staff to provide information regarding our audit strategic framework, audits, and audit processes and practices. We outlined audit objectives in four strategic areas (Supervision, Insurance, and Consumer Affairs; Resolution, Receivership, and Legal Services; Information Assurance; and Resource Management). By structuring our audits strategically in these areas, the OIG hopes to better address the Corporation's needs by focusing on areas that are believed to be

at risk. Similarly, our Office of Investigations staff have continued to participate regularly in the Division of Supervision's (DOS) Commissioned Examiner Seminars, providing general information on the types of investigations the OIG conducts, our coordination efforts, and "red flags" for examiners related to the failed First National Bank of Keystone. The Office of Investigations has also provided information on teller machine fraud schemes during DOS training.

The OIG also provided technical assistance and review to the Corporation in a joint project with the Office of Internal Control Management and the Division of Administration to determine whether FDIC policies ensure that accounting and auditing contractors comply with the U.S. General Accounting Office's (GAO) new independence standards. As discussed in our Major Issues section, we also provided a risk analysis to the Corporation, which discussed a significant emerging risk to the FDIC: the Quality of Bank Financial Reporting and Auditing. This risk potentially affects the FDIC in its role as regulator, receiver, and insurer. Further, the OIG provided advisory comments to FDIC management on the FDIC's 2002 Annual Performance Plan, which focused on the linkage between the Corporation's Leadership Conference 2002 performance measures and the goals and objectives of the Performance Plan itself.

Externally, we jointly sponsored a 2-day symposium with Offices of Inspector General of the Department of the Treasury and the Board of Governors of the Federal Reserve System to identify emerging risks or issues related to the banking industry. This forum brought together a number of regulatory and congressional speakers who offered their perspectives on the changes facing banking and financial and financial services industries and their regulators. We also worked with the GAO and other regulatory agencies on significant projects such as planning



material loss reviews and joint audits or investigations. Further, the Inspector General testified before the Senate Committee on Banking, Housing, and Urban Affairs regarding the OIG's analysis of the failure of Superior Bank, FSB. Senior OIG staff also met with congressional staff to discuss the OIG's work regarding the FDIC's Court-Ordered Restitution Program. Finally, through our new Office of Policy Analysis and Congressional Relations we have significantly increased our overall communication with congressional staff regarding policy issues impacting the Corporation and the financial services industry.

High Performance – a Top Priority

The OIG continues to look to increasing the value of our people and the performance capacity of the OIG while restructuring to a smaller workforce. Therefore, strategically managing our human capital in a high-performance culture continues to be a top priority in our organization. During this reporting period we drafted a Human Capital Strategic Plan, continued to support staff participation in events to celebrate the diversity of our staff, and completed our fourth external client survey.

The OIG identified the alignment of our human resources with our mission as a new proposed strategic goal to be included in the OIG's revision of its Strategic Plan. Our proposed Human Capital Strategic Plan complements the other strategic goals of the Strategic Plan by aligning and integrating human resource policies and practices with our business practices. It also mirrors some of the Chairman's recent goals of having the right number of people with the needed skills in the right places. Our plan focuses on four areas that are key to maximizing the return on our human capital and sustaining a high-performance organization: workforce analysis; competency investments;

leadership development; and a results-oriented, high-performance culture. We introduced our human capital strategic goal—to align OIG human capital resources with the OIG mission—at the OIG's October 2001 office-wide conference and are seeking input from OIG staff and others on the proposed plan.

Strengthening our workforce capacity will be particularly important in the next several years to prepare and position us for the future in light of our smaller workforce. As part of the Human Capital Strategic Plan objective on workforce analysis, we are developing a business knowledge inventory system to assess existing workforce knowledge and skills and determine where gaps may exist in the business knowledge needed to accomplish future workload. Another element of the plan involves making investments in the competencies of our staff that result in continuous improvement in OIG expertise that can match ongoing workload changes. The OIG developed and implemented a new training software package to increase the efficiency of the OIG training application and registration process. This paperless system is aimed at streamlining the process and increasing accessibility and efficiency, allowing

employees and supervisors to be more in control of targeting their own training and development.

In the interest of constantly improving OIG operations and products, the OIG completed its fourth external client survey to obtain views and feedback from senior and operating FDIC management. The survey results will allow us to better assess the quality of our products and the effectiveness of our office in communicating the objectives and results of our work.

During the period, the OIG has continued to support staff participation in a wide variety of diversity activities within the Corporation, and the OIG Employee Advisory Group continues to be involved in dialogue between the staff and the Inspector General on many issues important to OIG staff. To answer OIG staff's questions and answers that have been generated by the early retirement and buyout opportunity, OIG management created a Questions and Answers page on the OIG Web site.



Inspector General Gianni with retiree Ronald P. Auerbach and Mrs. Auerbach celebrating Ron's 33-year federal career.



The OIG values its human capital.

OIG Internal Activities

- Developed a comprehensive plan for restructuring and downsizing.
- Coordinated the completion of the fourth external customer survey regarding satisfaction with OIG operations and processes.
- Provided technical support to the Inspector General in his role as member of the advisory committee to update GAO's Government Auditing Standards.
- Coordinated the preparation and revision of management control plans for the OIG's accountability units under the Corporation's Internal Control and Risk Management Program.
- Issued the OIG's 2001 Performance Report.
- Submitted the FY 2003 Budget to House and Senate Appropriations Committees.
- Continued to develop a Human Capital Strategic Plan to align human resources policies and practices with the OIG mission.
- Began to develop a business knowledge inventory system to assess existing workforce knowledge and skills and determine where gaps may exist in the business knowledge needed to accomplish future workload.
- Continued participation in inter-agency 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 the Results Act implementation.
- Participated in a PCIE Results Act meeting to discuss new Performance-Based Budget Format and Scoring system and the Environmental Protection Agency's OIG Performance Results and Measurement System.
- Named an OIG Information Security Manager and began the development of the OIG's Information Security Program, which will focus on ensuring the protection of the OIG's information resources and ensuring the uninterrupted continuation of OIG information technology operations.
- Established an Information Security Advisory Group, chaired by the OIG Information Security Manager, to guide the development and subsequent implementation of the OIG's Information Security Policy and Program.
- Provided training for all audit staff regarding a new audit policy manual and related procedures and TeamMate, an automated working paper software package designed to enhance the efficiency and effectiveness of audits and evaluations.
- Initiated a special project to document the enterprise-wide architecture for the OIG.
- OIG's audit function had a peer review by the U.S. Agency for International Development (AID). AID concluded that the OIG's quality control system was designed in accordance with PCIE standards and provided reasonable assurance of conformance to professional standards in the conduct of audits.



OIG Internal Activities (continued)

- The Inspector General and other OIG staff attended the Association of Government Accountants' 13th Annual Leadership Conference on "Transforming Leadership," which focused on the President's Management Agenda.
- Coordinated with the Federal Reserve Board OIG to discuss possible joint audit of prompt corrective actions and procedures for material loss reviews.
- Jointly sponsored a 2-day Symposium on Emerging Issues with Offices of Inspector General of the Department of the Treasury and the Board of Governors of the Federal Reserve System, which provided approximately 95 auditors from bank regulatory agencies and other government organizations insight into emerging issues as identified by agency and congressional leadership.
- Developed an overall graphic representation of the FDIC's information technology environment to be used in planning future information technology audit coverage.
- Participated in PCIE's Social Security Number Misuse working group to look at the use of social security numbers at all levels of government and some concerns related to identity theft. Of special interest is how federal agencies protect social security numbers acquired during the course of normal operations.
- Coordinated with Treasury and Federal Reserve Board OIGs to plan for the material loss reviews for recently failed institutions.
- OIG senior staff met with congressional staff to discuss our work related to the FDIC's court-ordered restitution program.
- The Assistant Inspector General for Quality Assurance and Oversight is leading a PCIE committee to update OIG quality standards, which encompass all activities of Inspector General operations.
- Office of Audits reorganized along four strategic objectives with one crosscutting directorate.

Coordination with and Assistance to FDIC Management

- Provided advisory comments to management on the FDIC's 2002 Annual Performance Plan.
- Provided the Corporation with a risk analysis, which identified an emerging risk to the FDIC—the Quality of Bank Financial Reporting and Auditing. This emerging risk potentially affects the FDIC in its role as regulator, receiver, and insurer. We suggested that the FDIC's Office of Internal Control Management (OICM) consider this risk for disclosure in the FDIC's Statement on Internal Accounting and Administrative Controls, a component of the FDIC's Chief Financial Officers Act Report.
- Initiated an annual review of the Corporation's Internal Control and Risk Management Program, which will address whether the evaluation and reporting process supporting the 2001 FDIC Statement on Internal Accounting and Administrative Controls is consistent with the requirements of the Federal Managers' Financial Integrity Act.
- Provided technical assistance in a joint project with OICM and the Division of Administration to determine whether FDIC policies ensure that accounting and auditing contractors comply with the General Accounting Office's new independence standards.
- Continued providing OIG Weekly Highlights Report to the Chairman summarizing significant OIG activities.
- Presented OIG planned and ongoing audits to DOS and Division of Insurance regional directors.
- Attended FDIC Information Technology committee and DOS Process Redesign II meetings.
- Provided comments to the Chief Operating Officer on the Corporation's draft Emergency Response Plan.
- Provided comments on the Corporation's draft Interagency Agreement related to the FDIC's monitoring of risks in insured depository institutions.
- Provided input to Contract Oversight Workout Team effort led by OICM and the Division of Administration.
- Office of Audits executives continued to meet with FDIC division directors and office heads regarding the Office of Audits' strategic audit planning framework. They outlined audit objectives in four strategic areas (Insurance, Supervision, and Consumer Affairs; Resolution, Receivership, and Legal Services; Information Assurance; and Resource Management).
- Attended the FDIC's New Financial Environment Project meetings to monitor progress of the project.
- Assisted the Division of Information Resources Management in efforts to improve the FDIC's Information Security Review Process for completing federally mandated independent security reviews of major applications and general support systems.
- Coordinated with the Division of Finance and DRR on loss estimates for recently failed institutions.

Coordination with and Assistance to FDIC Management (continued)

- Participated in the Corporation's Information Quality Guidelines Task Force organized to help ensure the overall quality of information disseminated by the FDIC, in accordance with section 515 of the Treasury and General Government Appropriations Act for Fiscal Year 2001.
- Met with management from the Division of Finance to discuss the status of the financial audits.
- The Assistant Inspector General for Audits participated in the DOS and Division of Insurance conference for Regional Directors and Assistant Regional Directors and spoke of our audit work related to Superior Bank.
- Office of Audits executives met with DOS Field Office Supervisors in a series of meetings to communicate our planned and current work regarding the Division of Compliance and Consumer Affairs and DOS and to update the Field Office Supervisors on OIG audit processes.
- The Assistant Inspector General for Audits met with Internal Control Liaisons from throughout the Corporation to discuss changes in the Office of Audits' planning, auditing, reporting, follow-up, and resolution processes and emphasized the importance of establishing and maintaining good communication throughout the audit process.
- OIG special agents continued to participate in DOS Commissioned Examiner Seminars, where they provided information on the structure of the Office of Investigations, an overview of the types of investigations conducted by the Office of Investigations, and coordination efforts with DOS. They also provided insight for examiners on identifying "red flags" related to the First National Bank of Keystone failure.



FDIC Inspector General Leads IG Community

The last 6 months challenged the Inspector General (IG) community in many different ways. As Vice Chair of the President's Council on Integrity and Efficiency (PCIE), the FDIC Inspector General provided the forum for the IG community to come together and respond to the issues at hand.

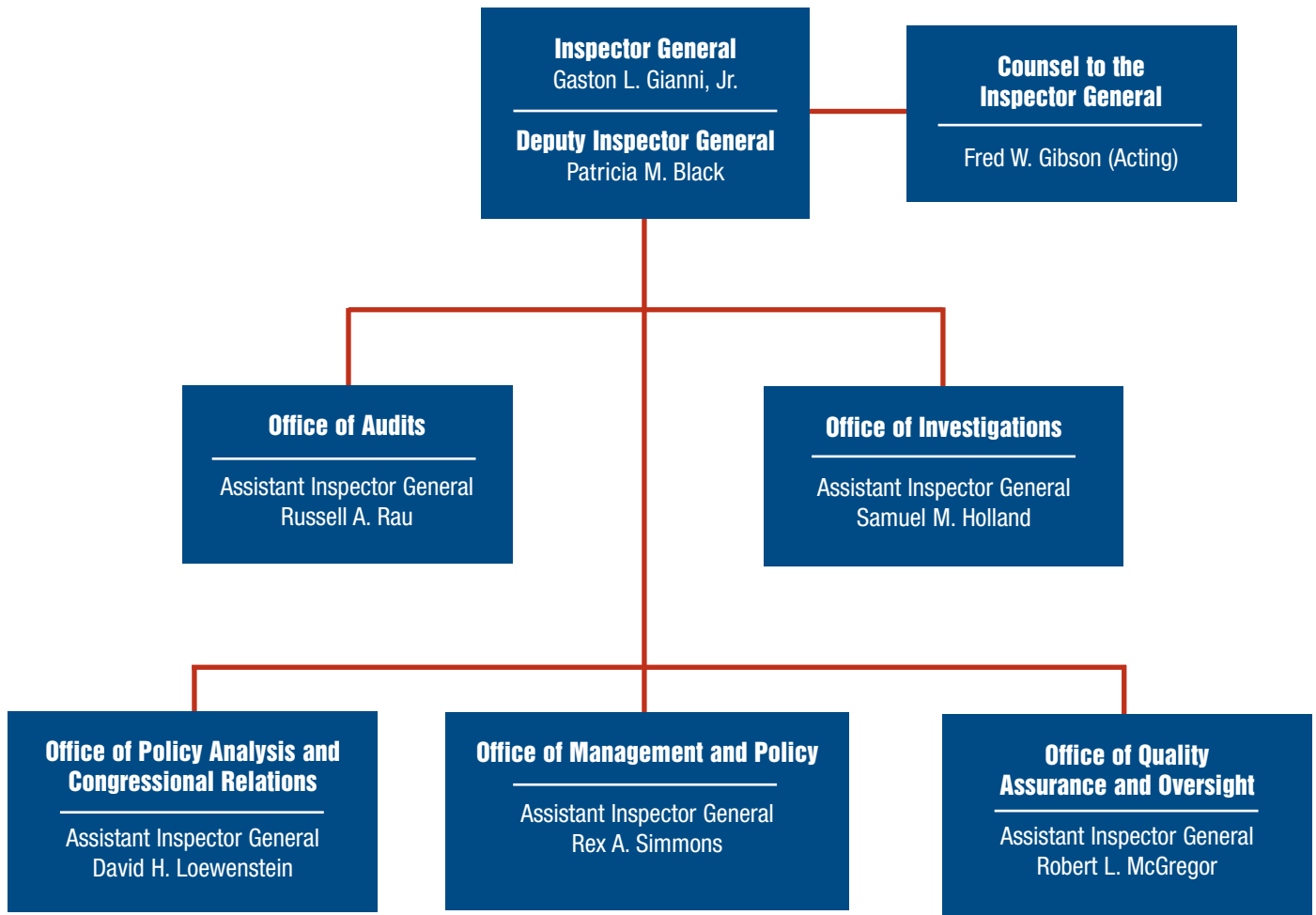
Following the tragic events of September 11, the IG community took the challenges of fighting terrorism abroad and securing our homeland very seriously. Immediately following the attack, hundreds of individuals representing the IG community began participating in rescue and evidence recovery at the crash sites in New York, Pennsylvania, and Washington, D.C. In the days following the attack, OIG investigators from across the country joined the Federal Bureau of Investigation and other law enforcement agencies to begin the tedious investigative process and participate on terrorism and bioterrorism task forces. Several of these efforts are still ongoing. Finally, the IG community contributed to safeguarding our nation's airways by committing individuals to the Air Marshal Service until permanent staff is in place.

In August 2001, the President spelled out his management reform agenda, which included five government-wide initiatives to help the government achieve better results. Over the years, the IG community has been highlighting the concerns noted in these initiatives as major challenges facing our nation. Over the last few months, the PCIE has been directing many of its activities to facilitate the agencies' efforts to accomplish these initiatives. In particular, the IG community is working with the Chief Financial Officers on aspects of the financial management initiative by examining the erroneous payments issue and beginning the dialogue to accelerate financial statement reporting. In February, Inspector General Gianni, in his capacity as Vice Chair of the PCIE, testified before the House Government Reform Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations regarding the President's Management Agenda and the role of the IG community in accomplishing this agenda. The IG highlighted the work of the PCIE and individual IGs, provided the community's initial impression of the agenda, and suggested how the IG community could add value to the process.

Finally, with a goal of offering greater transparency of the auditing side of the IG community, a PCIE working group examined and updated the community's peer review guide. Every 3 years each OIG is subject to a peer review whereby one OIG examines another OIG's audit policies and practices and reports on the results. The revision recognized new audit requirements, including the General Accounting Office Yellow Book's new auditor independence standards, and set new review and reporting processes. This guide will become effective for the 2003/2004 peer review cycle.



OIG Organizational Chart



OIG Executives- (standing, left to right) David Loewenstein, Russell Rau, Gaston Gianni, Patricia Black, Samuel Holland, Rex Simmons (sitting, left to right) Stephen Beard, Sharon Smith, and Robert McGregor

**Table 1: Significant OIG Achievements
October 1, 2001 - March 31, 2002**

| | |
|--|-----------------|
| Audit and Evaluation Reports Issued | 19 |
| Questioned Costs and Funds Put to Better Use from Audit and Evaluation Reports | \$1.6 million |
| Inspector General Congressional Testimony | 3 |
| Investigations Opened | 21 |
| Investigations Closed | 36 |
| OIG Subpoenas Issued | 16 |
| Convictions | 11 |
| Fines, Restitution, and Monetary Recoveries | \$536.4 million |
| Hotline Allegations Referred | 17 |
| Allegations Substantiated | 2 |
| Allegations Closed | 6 |
| Proposed Regulations Reviewed | 1 |
| Proposed FDIC Policies and Directives Reviewed | 18 |
| Responses to Requests Under the Freedom of Information Act and Privacy Act | 7 |

Table 2: Nonmonetary Recommendations

| | |
|-----------------------------|----|
| October 1999 – March 2000 | 68 |
| April 2000 – September 2000 | 74 |
| October 2000 – March 2001 | 90 |
| April 2001 – September 2001 | 34 |
| October 2001 – March 2002 | 68 |



Figure 1: Products Issued and Investigations Closed

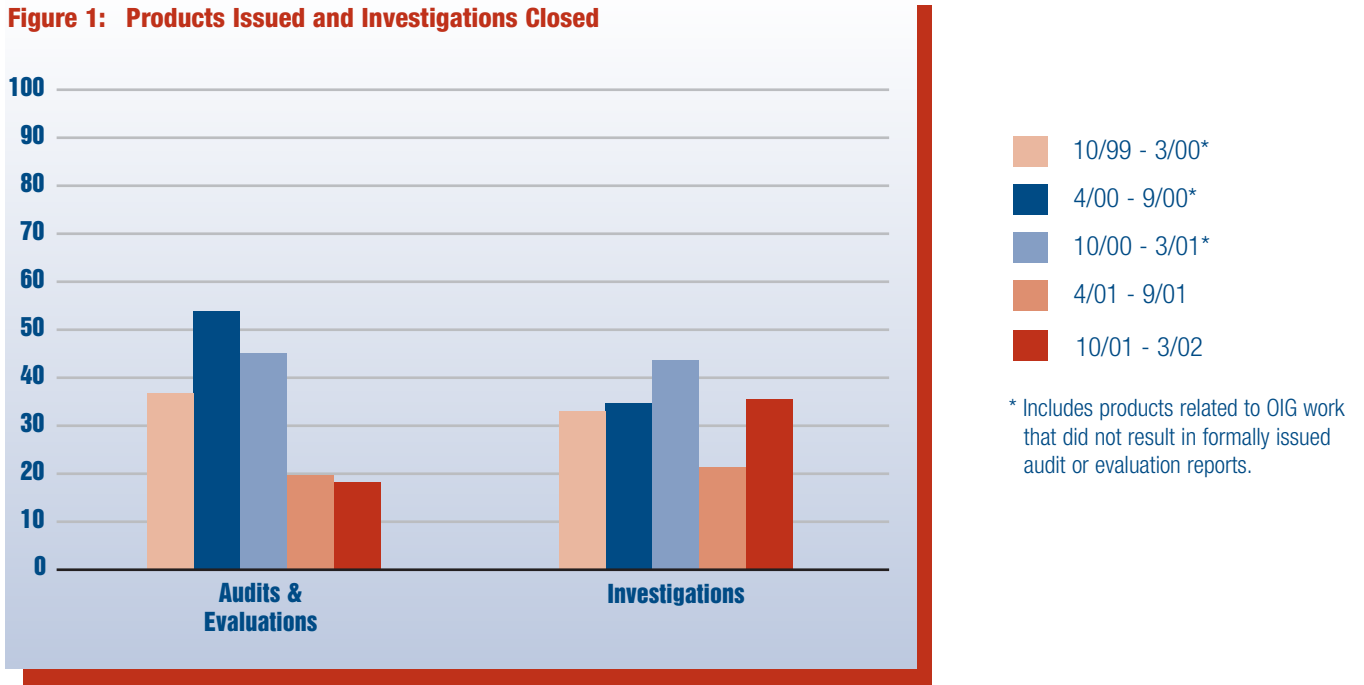
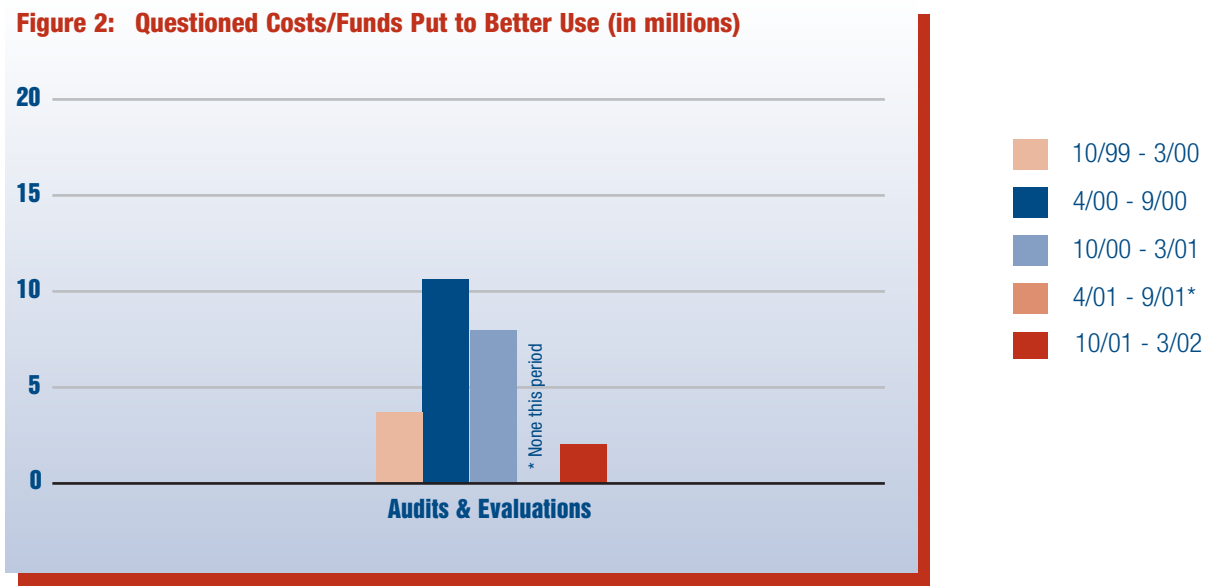
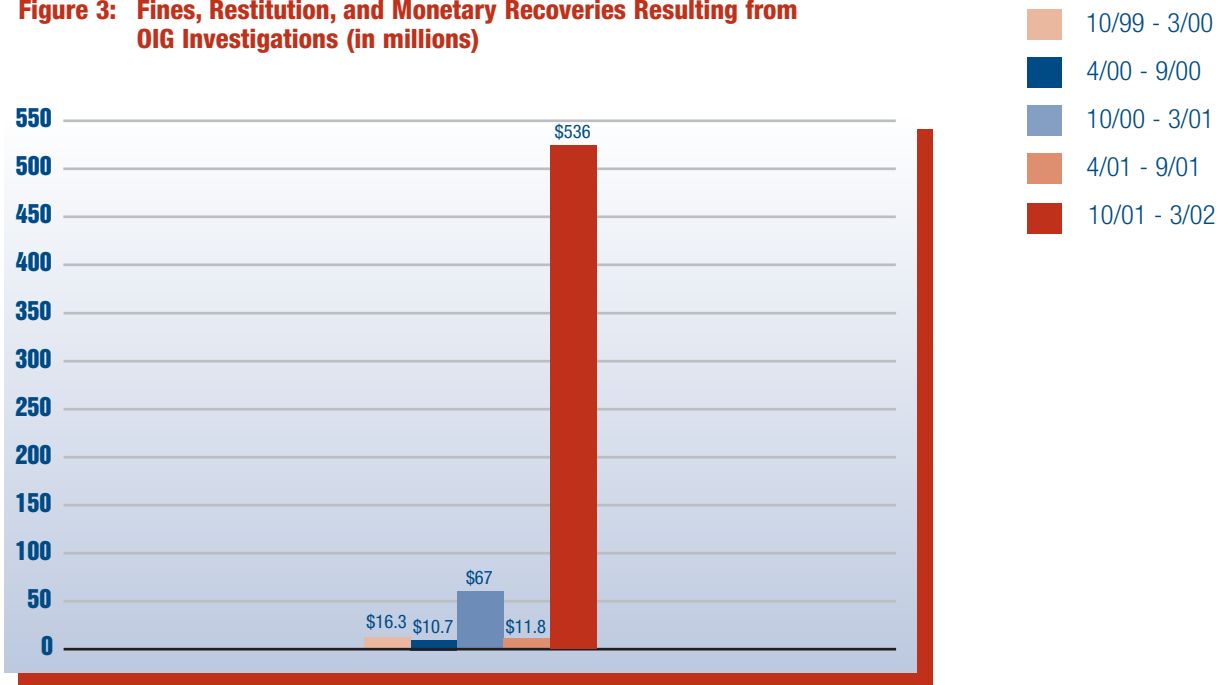


Figure 2: Questioned Costs/Funds Put to Better Use (in millions)



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



OIG Counsel Activities

(October 1, 2001 - March 31, 2002)

The Mission of the Office of Counsel

The Office of Counsel serves the legal needs of the OIG. To that end, Counsel's office provides legal advice and assistance on the entire range of issues that have faced, are facing, or will face the OIG. The Office litigates personnel cases; provides advice and counsel on matters arising during the course of audits, investigations, and evaluations, including the legal sufficiency of reports; reviews, analyzes and comments on proposed or existing regulations or legislation, including recent banking legislation and implementing regulations; communicates or negotiates with other entities; responds to Freedom of Information Act and Privacy Act requests and appeals; prepares and enforces subpoenas for issuance by the Inspector General; and coordinates with the Legal Division. Examples include:

Litigation

Counsel's office has actively litigated 7 matters during the reporting period. These matters involved the Equal Employment Opportunity statute, the "qui tam" provisions of the False Claims Act, whistleblower protection laws, and civil and criminal cases in which OIG documents were sought in discovery. These matters are in addition to 9 matters that are awaiting further action by the parties or rulings by the courts or other adjudicatory bodies.

Advice and Counseling

Counsel's office provided advice and counseling, including written opinions, on a number of issues, including closed-bank matters, particularly Superior Bank FSB; personnel issues, including downsizing and reduction-in-force matters; payroll issues; terrorism; the implications of the Privacy Act and Rehabilitation Act section 508 on OIG systems; interpretation of various Office of Management and Budget Circulars; investigative matters, contract interpretations, and consulting issues; disclosure of information; the Vacancy Act; and various ethics-related matters. In addition, we provided comments relative to the legal sufficiency of several audit reports.

Legislation/Regulation Review

Counsel's office carried out its responsibilities under the Inspector General Act to review proposed or existing legislation and regulations. During this reporting period, we reviewed and provided comments on 1 FDIC regulation.

Subpoenas

Counsel's office prepared 16 subpoenas for issuance by the Inspector General during this reporting period.

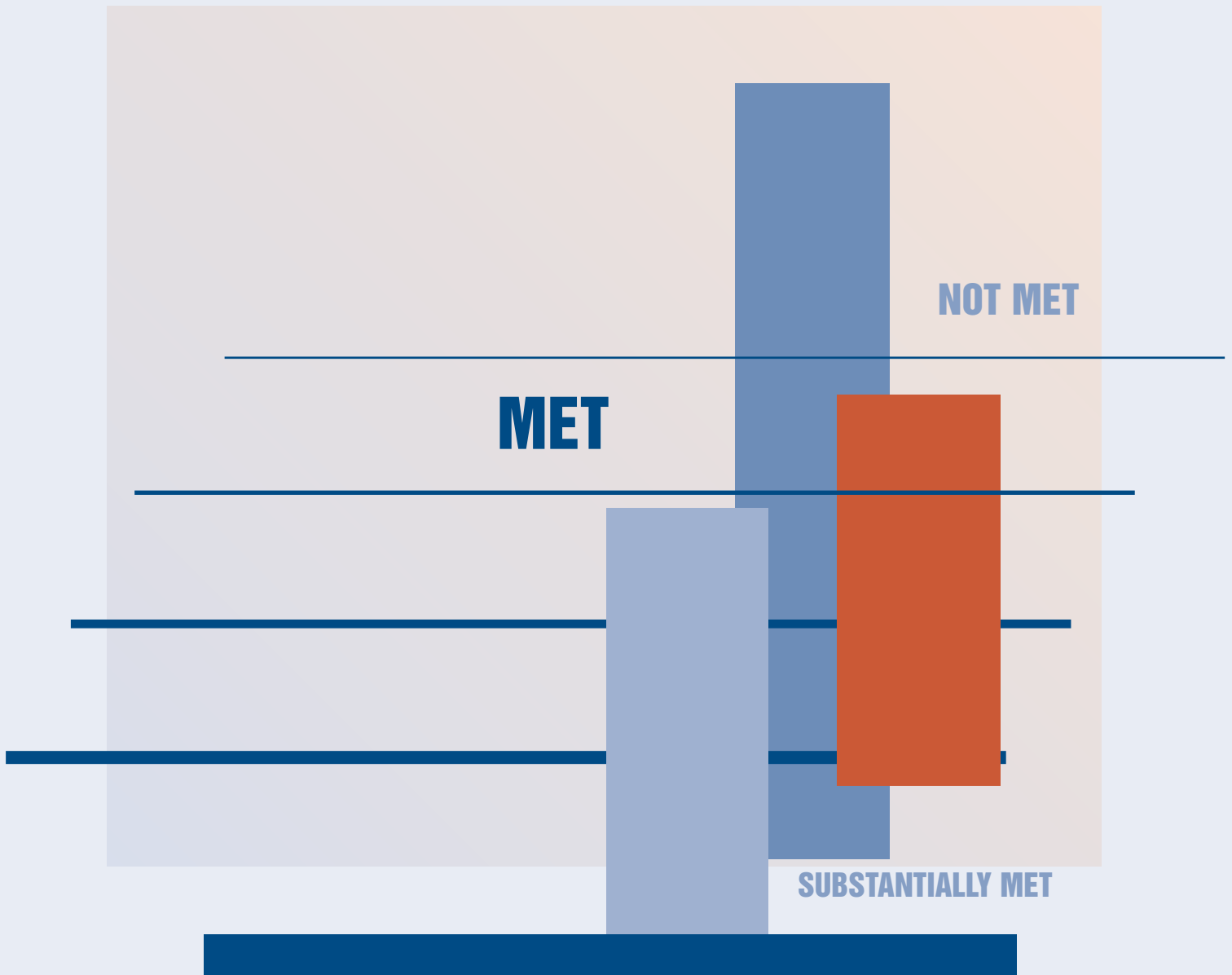
FOIA/Privacy Act

Counsel's office responded to 7 requests under the Freedom of Information Act and the Privacy Act.



Performance Report

OIG 2001 PERFORMANCE REPORT



OIG 2001 Performance Report

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Performance Report

Inspector General Foreword

A bit of perspective on the year 2001 is helpful to understand the results we are reporting in this performance report.

The year 2001 was a challenging time for the Office of Inspector General. After a long period of relative organizational stability, 2001 was marked by great flux, with the retirement of the head of the Office of Audits, the largest component of the OIG; a period of interim leadership of that office; and ultimately, the permanent appointment of a new leadership team for the office. As part of those changes, the Evaluations group was merged into the Office of Audits. The OIG also established a new Office of Policy Analysis and Congressional Relations, which assumed some of the responsibilities formerly carried out by the Evaluations group. Along with the new leadership in the Office of Audits and the Office of Policy Analysis and Congressional Relations came new organizational and process changes designed to more effectively achieve the OIG's mission.

Several other key events impacting the OIG's work occurred during 2001. In July the OIG was faced with responding to a Congressional request to review the failure of Superior Bank, FSB, one of the costliest of all recent failures of FDIC-insured institutions. The OIG was also required, under the Government Information Security Reform Act, to conduct the most comprehensive review to date of the Corporation's information technology control environment and to deliver the results to the Office of Management and Budget through the FDIC Chairman in September. Additionally, the events of September 11, 2001 had a profound impact on all OIG staff and called into action OIG investigative resources to assist in New York and at the Pentagon in the aftermath of the terrorist activities in those

locations. For all of these significant priorities and other work as well, the staff of the OIG rose to the occasion and produced impressive results.

While we are proud of these accomplishments and pleased to have either met or substantially met 74 percent of our goals for 2001, we are not satisfied. We are continuing efforts to become a better organization and improve performance.

We should note that the OIG's Office of Investigations has achieved enhanced client ratings and increased performance, as evidenced in this 2001 performance report. These were achieved in part due to a major reorganization in 1999. Likewise, we are now beginning to feel the positive impact of Office of Audits' reorganization of mid-2001 and are committed to take steps to achieve increased audit performance.

The future holds continued challenges for our office and others in the FDIC as we all undergo downsizing while addressing new and continuing risks to the banking industry. I am confident, however, that we will continue to successfully carry out the OIG mission and that our performance will provide valuable assistance to the Corporation in its efforts to insure deposits, regulate financial institutions, and minimize the number and cost of institution failures.

Performance Report

Background

Nature and Purpose of Annual Performance Report

The Office of Inspector General develops its own independent strategic plan and annual performance plan. These plans were designed to establish goals to measure performance consistent with the principles of the Government Performance and Results Act (Results Act). This report presents our performance against our 2001 Annual Performance Plan focusing on the most meaningful annual measures related to achieving our strategic goals and objectives.

Relationship to FDIC's Annual Program Performance Report

The FDIC is issuing its 2001 Program Performance Report to Congress during the second quarter of 2002, presenting its performance against 21 annual goals. The Corporation's annual goals address its mission to "Contribute to the stability and public confidence in the nation's financial system" in four strategic result areas: (1) Insured depositors are protected from loss without recourse to taxpayer funding, (2) Insured depository institutions are safe and sound, (3) Consumers' rights are protected and FDIC-supervised insured depository institutions invest in their communities, and (4) Recovery to creditors of receiverships is achieved.

We believe that accomplishing the OIG's strategic and annual goals and objectives contributes to the Corporation's achievement of its mission and goals and objectives.

The requirement for an annual performance report under the Results Act applies to the agency as a whole rather than to the OIG as a separate component. However, because of the unique mission and independent nature of Inspectors General under the Inspector General Act, we have prepared separate strategic and annual plans and reports, rather than integrating OIG goals and results into the Corporation's plans and reports. The FDIC's 2001 Program Performance Report references this Annual Performance Report.

Relationship to OIG Semiannual Report to the Congress

Annual performance reports of OIGs prepared under the Results Act differ from semiannual reports

of OIGs prepared under the Inspector General Act. The two reports differ with respect to the time periods covered (12 months vs. 6 months) and the specific reporting requirements. However, because both types of reports present OIG accomplishments to the Congress, we have included the Annual Performance Report for calendar year 2001 as a separate but integral component of this *Semiannual Report to the Congress*, which covers the period of October 1, 2001 to March 31, 2002.

OIG to Change Reporting Cycle to September 30 Fiscal Year

To date, the FDIC OIG has conducted its performance planning and reporting cycle under the Results Act on a calendar year basis, consistent with the Corporation's budget and accounting cycle. However, the OIG receives a separate appropriation based on the government-wide fiscal year ending September 30. We have made a decision to change our Results Act performance planning and reporting cycle to the fiscal year ending September 30. This cycle will also be consistent with the semiannual reporting periods required under the Inspector General Act. To accommodate our conversion from reporting on a calendar year basis to reporting on a September 30 fiscal year basis, we will use a 9-month transition period (January 1 to September 30, 2002) for our next performance reporting cycle. A new strategic plan and an updated annual performance plan with new goals and measures will be developed to be effective for fiscal year 2003, which begins on October 1, 2002.

Performance Report

Statistical Summary of Performance Against Annual Goals

The following table summarizes our collective performance against the annual performance goals for 2001. The table reflects whether the goals were **Met**, **Substantially Met**,¹ or **Not Met**.

| Strategic Goal Areas | Strategic Objectives Areas | Annual Goal Accomplishment ² (Number of Goals) | | | |
|--|--|--|--------------------------------|------------|-------------|
| | | Met | Substantially Met ¹ | Not Met | Total |
| Audits, Evaluations, and Investigations Add Value | Client Satisfaction | 6 | 1 | 4 | 11 |
| | Quality | 1 | 1 | | 2 |
| | Impact/Results | 2 | 1 | | 3 |
| | Productivity | 1 | 1 | 1 | 3 |
| | Timeliness | 3 | | 2 | 5 |
| Subtotal | | 13 | 4 | 7 | 24 |
| Professional Advice Assists the Corporation | Advise on Emerging Issues & Vulnerabilities | 2 | | | 2 |
| OIG Communicates Effectively with Clients/Stakeholders | Inspector General Role/Activities; Inquiries and Responses; Interagency Issues | 6 | | 2 | 8 |
| Total | | 21 | 4 | 9 | 34 |
| Percentage | | 62% | 12% | 26% | 100% |

The table above indicates that we met or substantially met 74 percent of our goals for 2001. Performance cannot be evaluated based solely on a statistical summary of measures, given that all measures are not equal in weight and the quality of the measures is still evolving. A summary discussion of our performance and areas needing improvement is presented in the next section, *Performance Overview*.

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

² A detail listing showing goal accomplishment for each of the annual performance goals for 2001 is provided beginning on page 65. If the 2001 goal had a "like" or similar goal in 2000, the detail listing also shows goal accomplishment for 2000.

Performance Report

For the previous reporting period (2000), we had an 83 percent level of achievement of goals either met or substantially met (see table on page 68). However, our performance statistics for 2001 are not directly comparable to prior years' performance results due to several factors, including:

- **Changes in Goals** - This year's goals differ somewhat from last year's because goals have been added, combined, or dropped. Most notably, the number of general client satisfaction goals has increased. We established new baseline data last year enabling us to measure client survey results for each of our three business line functions - audits, evaluations, and investigations - at three levels: senior headquarters executives (as was reported for prior surveys); 2nd tier headquarters and field executives and managers; and a combined rating. Thus, for this year, we have nine general client survey goals (compared to three last year) related to overall client satisfaction. We have an additional general client survey goal related to knowledge of the investigative function and a separate project-by-project survey goal for a total of 11 client survey goals. We believe this creates a disproportionate number of client survey goals in relation to total OIG goals. We will reevaluate appropriate goals for future performance reporting to address this issue and bring our goals into balance.
- **Organizational Realignment** - Organizational realignment and operational process changes, as discussed in the Inspector General Foreword, may have affected performance and client survey views related to audits and evaluations.

Performance Overview

As indicated in the statistical summary in the previous section, overall we met 25 of 34 goals (74 percent). Presented below is a brief overview of our performance for each of the three strategic goal areas. A more detailed discussion of goal accomplishment is presented in the next section.

Strategic Goal Area: Audits, Evaluations, and Investigations Add Value

The OIG's 2001 strategic objectives address five components of audit, evaluation, and investigative value (client satisfaction, quality,

impact, productivity, and timeliness). While we met or substantially met 17 of 24 goals in these five areas, an assessment of our performance, as compared to the two previous years, indicates a **continuing need to increase productivity, timeliness, and client satisfaction**. Our Office of Audits and Office of Investigations are committed to doing so.

We met or substantially met 12 of 19 goals related to **productivity, timeliness, and client satisfaction**; however, we did not meet 7 of these goals. Concerns with performance in these areas can be explained in part by factors discussed in the *Inspector General Foreword* related to OIG organizational and operational process transitions and workload priorities (Superior Bank failure and the Government Information Security Reform Act review) occurring during 2001. Full implementation of organizational and process changes should have a positive impact on productivity and timeliness. Steps to improve communication with management have already been initiated, which should address issues underlying client satisfaction results.

We have **performed reasonably well against our existing measures and goals related to the quality and impact of our work**, meeting or substantially meeting all five goals. However, determining appropriate measures and goals continues to be a challenge. We are currently in the process of updating our strategic and annual goals and measures. This process will give consideration to the new Chairman's priorities discussed at the FDIC Executive Leadership Conference in February 2002 and should result in improved measures.

Strategic Goal Area: Professional Advice

We have successfully met our two performance goals related to providing professional advice on vulnerabilities and emerging issues. We have participated in a number of joint initiatives with FDIC management related to bank supervision, information technology and security, and financial statement reporting. We believe these initiatives have served to improve corporate operations.

Strategic Goal Area: Communications

We met or substantially met six of eight goals related to semiannual reporting, referring hotline complaints, responding to Freedom of Information Act and Privacy Act requests, and establishing new client baseline data. We did not meet goals in two areas as discussed below.

- We did not meet our goal related to client satisfaction with OIG communication efforts. After 2 years of increases, the client survey has indicated a decline in client satisfaction with OIG communication efforts. Survey results suggest the need for OIG executives to have more direct contact and spend more time cultivating relationships with top FDIC managers. We have initiated efforts to achieve this and are beginning to see the positive impact of these actions.
- We did not meet our goal related to timeliness of acknowledgment of congressional and Chairman's requests. We are reviewing ways to improve this process.

Performance by Strategic Objective Area

Audits, Evaluations, and Investigations Add Value

Overall, we met or substantially met 17 of our 24 performance goals related to adding value to the Corporation. These value-added goals encompass the five strategic objective areas of client satisfaction, quality, impact/results, productivity, and timeliness.

Client Satisfaction - Meeting Clients Needs and Expectations

We met or substantially met 7 of our 11 client satisfaction goals for 2001 related to a **general client survey** and **project-by-project surveys**.

General Client Survey Overall Goals - We met six of the nine general client survey goals to increase client satisfaction ratings for our core mission activities by 10 percent above the level achieved for 2000, up to a sustaining level of 80 percent of the maximum score possible (see table on following page.)

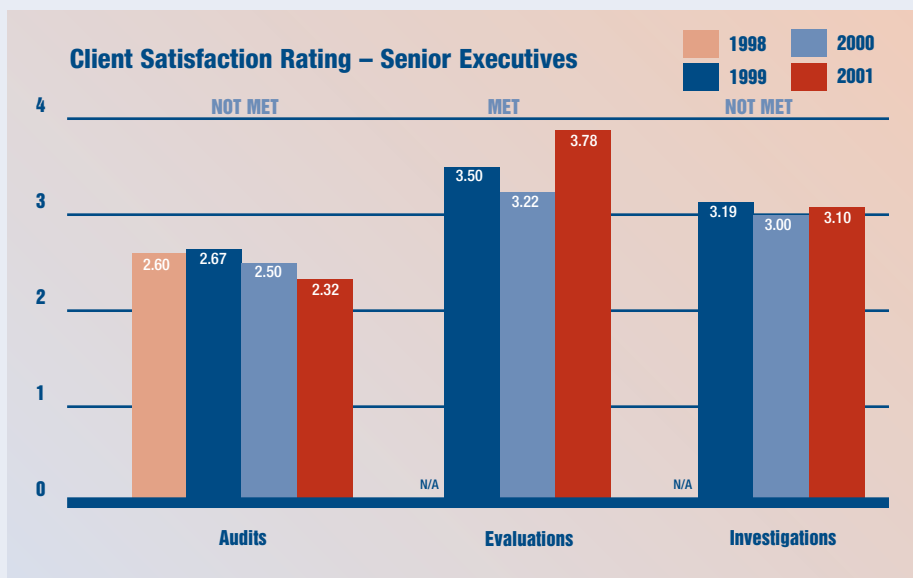
Performance Report

General Client Survey Overall Goals

| | Audits | Evaluations | Investigations |
|--------------------------------|---------|-------------|----------------|
| Senior Executives | Not Met | Met | Not Met |
| 2nd Tier Executives & Managers | Met | Not Met | Met |
| Combined (All Respondents) | Met | Met | Met |

We established new baseline data last year enabling us to measure client survey results for 2001 for each of our three business line functions - audits, evaluations, and investigations - at three levels: senior headquarters executives (as was reported for prior surveys); 2nd tier headquarters and field executives and managers; and a combined rating. Thus, for this year, we have nine overall general client survey goals (compared to three last year), creating a disproportionate number of goals in this area. We will reevaluate appropriate goals for future performance reporting to address this issue and bring our goals into balance.

Senior Executives Ratings: We met one of our three goals to increase client satisfaction ratings by FDIC's most senior executives for our core mission activities by 10 percent above the level achieved for 2000. As shown in the following graph, the Evaluation function met its goal and showed a significant (17 percent) increase and was graded as an A/A-. Investigations had a slight (3 percent) increase and received a grade of B/B+. The Audit function had a slight (7 percent) decrease from the previous year and received a C+. The decline may have been due to changed audit and evaluation processes and plans that management did not fully understand.



Note: A client satisfaction rating was not obtained for evaluations and investigations in 1998. Also, for comparison purposes, ratings for 1998 and 1999 were recomputed using the 2000 and 2001 grade numerical equivalent values.

Performance Report

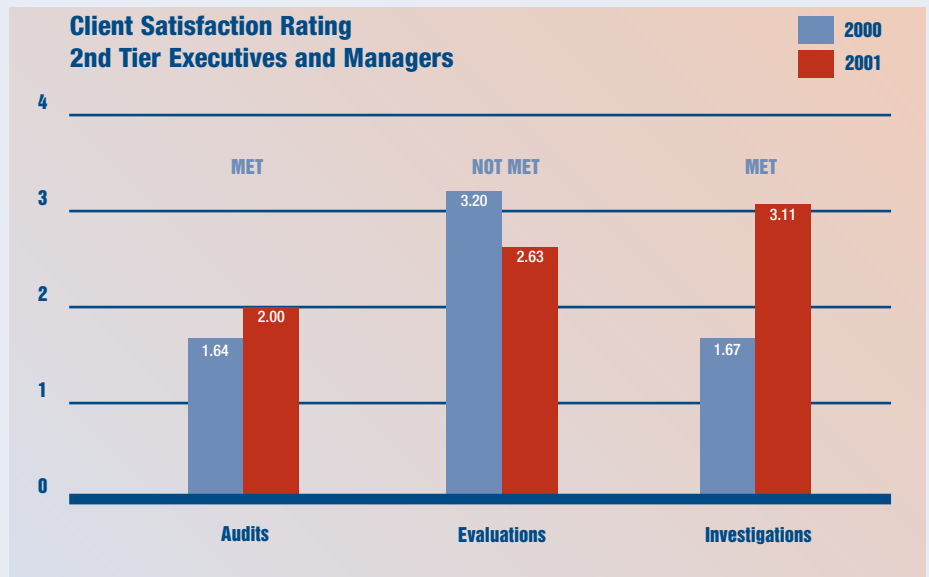
2nd Tier Executives and Managers Ratings: We met two of our three goals to increase client satisfaction ratings by the FDIC's 2nd tier executives and managers for our core mission activities by 10 percent above the level achieved for 2000. As shown in the following graph, Investigations met its goal and had a significant (86 percent) increase and received a grade of B/B+. The Audit function also met its goal and showed a significant (22 percent) increase and was graded as a C. The Evaluation function had a decrease (18 percent) from the previous year and received a B-/C+. It should be noted that the methodology for obtaining client survey results from 2nd tier executives and managers was changed from focus group interviews for 2000 to electronic email surveys for 2001. Therefore, survey results and ratings for the 2 years may not be fully comparable.

Combined Ratings: For each of the core mission areas, we combined the percentage increase or decrease in ratings for senior executives and 2nd tier executives and managers to determine a net percentage change. Based on the net percentage change, we met all three of the goals to increase client satisfaction ratings for our core mission activities by 10 percent above the level achieved for 2000, up to a sustaining level of 80 percent of the maximum score possible.

Audits: The Audit function showed a net percentage increase of 15 percent (7 percent decrease for senior executives and 22 percent increase for 2nd tier executives and managers).

Evaluations: The Evaluation function showed a net percentage decrease of 1 percent (17 percent increase for senior executives and 18 percent decrease for 2nd tier executives and managers). However, the goal was considered met because the average rating for the Evaluation function by senior executives and 2nd tier executives and managers for 2001 was 3.21, which is greater than the sustaining level of 80 percent of the maximum score possible (3.20).

Investigations: Investigations showed a net percentage increase of 89 percent (3 percent increase for senior executives and 86 percent increase for 2nd tier executives and managers).



Comments from the client survey report, specific to each of our three core mission areas, are summarized below.

Audits: Concerns were expressed about the lack of communications on the plans, activities, and direction of the audit function; the value and cost-benefit of certain audit products; and the timeliness and uneven quality of audit reports and recommendations. On a positive note, respondents believe they have been kept informed about ongoing audits and regard the audit staff as professional and competent.

Evaluations: As in previous years, evaluation work continues to receive the highest client satisfaction ratings of the three core mission areas. Evaluation reports are regarded as well balanced with clear recommendations that can be readily implemented. However, concerns were expressed about the lack of an in-depth understanding of the evaluation function and the integration of the evaluation function into the Office of Audits.

Investigations: Survey respondents expressed concerns about timeliness in completing investigations and had a general lack of knowledge about the investigation function. Only 5 of 15 interviewees at the senior

executive level reported they had sufficient experience with the Office of Investigations during the past year to evaluate the investigation function.

Action plans are being developed to address client concerns.

General Client Survey - Office of Investigations Knowledge: The goal to increase the number of FDIC executives having knowledge or understanding of the Office of Investigations was not met. Results of the 2001 general client survey indicated that only 5 of the 15 (33 percent) executives interviewed reported they had sufficient knowledge to evaluate the investigation function. Of the ten who declined to provide an evaluation, five did make comments on their views of the Office of Investigations, which were mostly positive. In 2000, 10 of 14 (71 percent) interviewees reported sufficient knowledge of investigations. Significantly, 11 of the 15 senior executives interviewed during the 2001 survey also participated in the senior executives' interviews last year. As the survey report noted, there was no ready explanation for the sharp drop in reported understanding of the investigation function.

Project-by-Project Survey Goal - Our goal to achieve an average client satisfaction rating for audit and evaluation reports of 80 percent or greater of the maximum score possible on project-by-project client surveys was substantially met.³

³ A quantitative goal was considered "substantially met" if actual performance came within 10 percent of the target level of performance.

Performance Report

Ratings averaged 87 percent for audit reports and 76 percent for evaluation reports issued during the year.

Quality - Complying with Professional Standards

We met or substantially met both of our quality goals. The Office of Audits goal to have no material weaknesses disclosed from internal and external quality assurance reviews and to resolve any significant matters identified by the reviews was met. The Office of Investigations goal to conduct internal operational reviews every 12 months in its regional offices and resolve significant matters was substantially met.

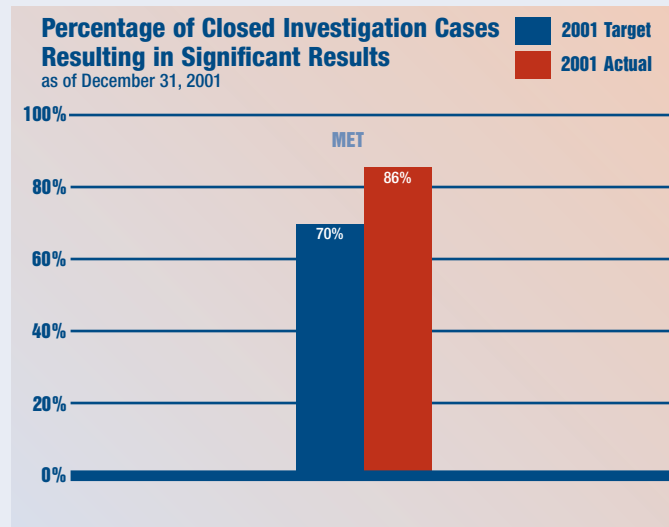
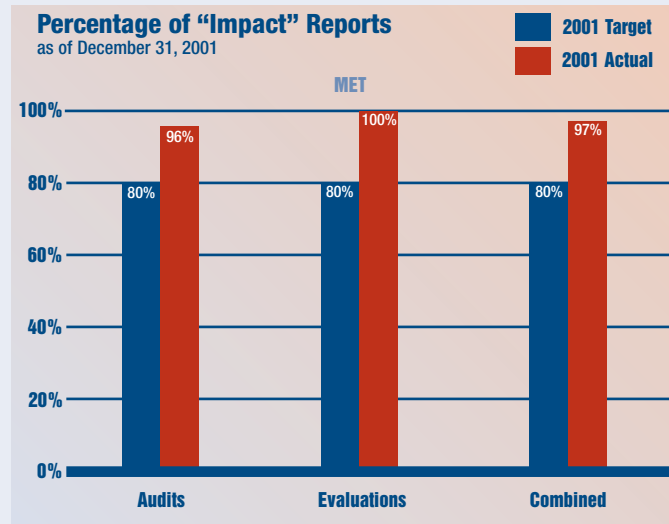
Impact/Results - Products Achieve Significant Impact or Results

We met or substantially met all three of our impact/results goals. As shown in the following graphs, two impact goals were met, one related to audit and evaluation reports, and the other to investigation results. In the first graph, "impact" reports are audit and evaluation reports that either (1) result in management's agreement to implement actions to achieve monetary benefits and improved programs or procedures or (2) provide FDIC management with relevant, timely information needed for decision-making. In the second graph, significant results are either reports to management, criminal convictions, civil actions, administrative actions, or a combination of these.

A third impact goal related to establishing an Electronic Crimes Team, initiating investigations into unauthorized intrusions into the FDIC's computer networks, and conducting computer forensic examinations was substantially met.

The following factors present challenges in fully measuring the impact of audit, evaluation, and investigative work: accurately measuring cost savings from work; quantifying the impact of various OIG proactive prevention activities, including the value of improved internal controls resulting from OIG work; and measuring the deterrent value of OIG investigative work.

Our semiannual reports to the Congress present results that have had a significant positive impact on the operations of the FDIC. Results

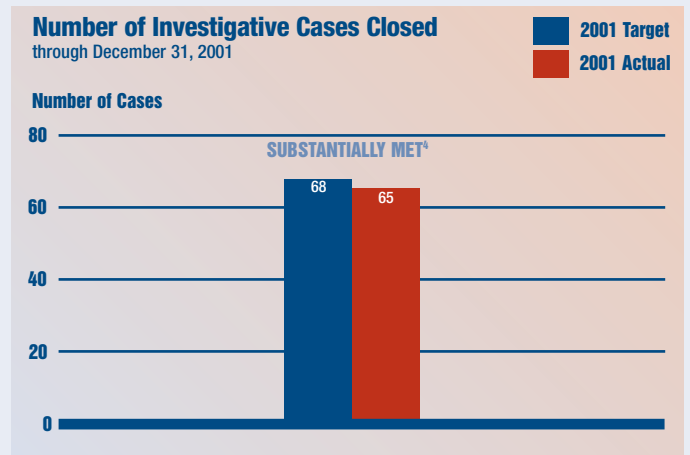
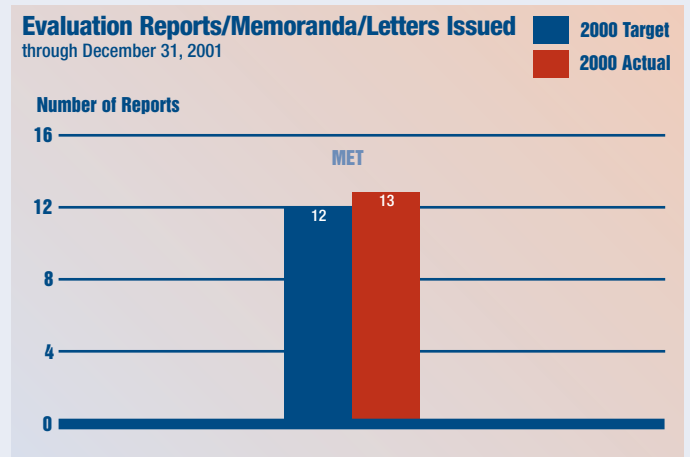
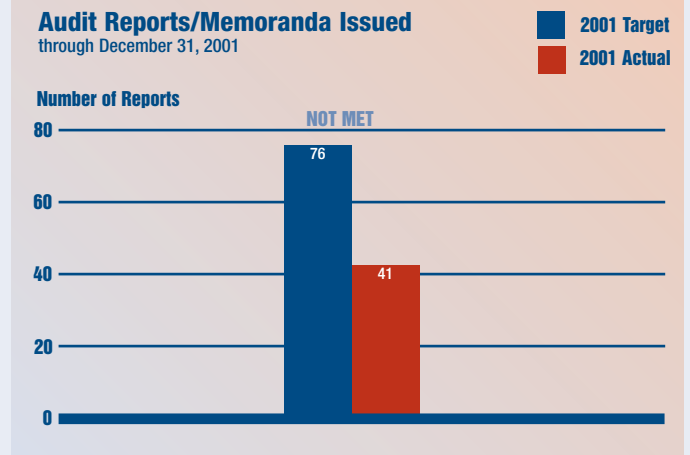


presented include a discussion of major issues facing the Corporation and significant audit, evaluation, investigation, and other OIG activities. The semiannual reports present various measures specified in the Inspector General Act including questioned costs and funds put to better use; fines, restitution, and monetary recoveries resulting from OIG investigations; and nonmonetary recommendations.

Performance Report

Productivity - Managing Resources to Maximize Productivity

As shown in the following graphs, we met or substantially met two of our three productivity goals. Audit reports and memoranda issued (41) were substantially (46 percent) below the target of 76. Evaluation reports, memoranda, or letters issued (13) were above the goal of 12. The goal of 68 investigative cases closed was substantially met by closing 65 cases (96 percent of the goal).



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

Performance Report

The OIG's reorganization of the audit and evaluation functions and implementation of new processes may have had an impact on the issuance of audit and evaluation reports. However, once changes are completely implemented, productivity should improve. Additionally, departures from planned schedules for audits were necessary to address issues and carry out projects brought about by significant congressional requests resulting from the failure and closing of Superior Bank, Hinsdale, Illinois. Of the factors impacting the number of investigative cases closed, the most significant was case complexity.

Timeliness - Issuing reports in a timely manner

We met three of our five timeliness goals. The top graph shows two goals. The bottom graph shows one goal for investigations that includes two aspects of timeliness in issuance of investigation reports.

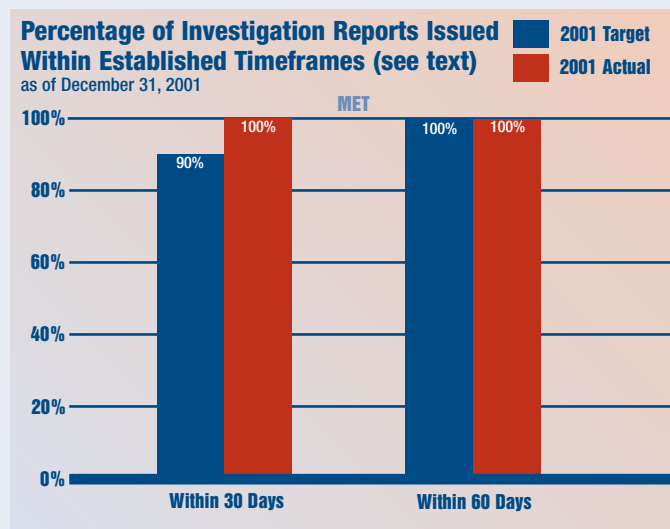
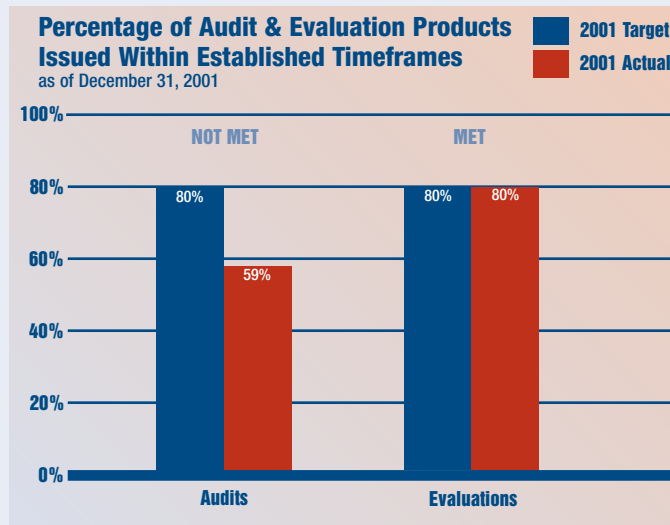
As shown in the top graph -

Audits - We did not meet our goal to issue 80 percent of audit reports or other reporting vehicles within 260 days. Actual performance was 59 percent (24 of 41 audit products). The median audit product issuance time was 233 days. Factors related to the difficulties in meeting this goal include those that have been previously mentioned.

Evaluations - We met our goal to issue 80 percent of evaluation reports or other reporting vehicles within agreed-upon time frames or within 180 days. Actual performance was 80 percent (8 of 10 evaluation products).

As shown in the bottom graph -

- We also met our goal to issue 90 percent of Reports of Investigation within 30 working days upon completion of cases, and to issue 100 percent of Reports of Investigation within 60 working days. Actual performance was issuing 100 percent of investigation reports within 30 working days (35 of 35 reports); thus automatically satisfying both aspects of this goal.



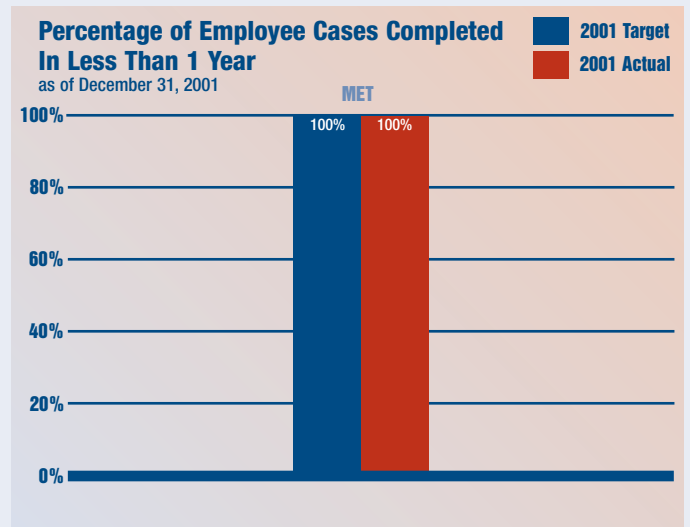
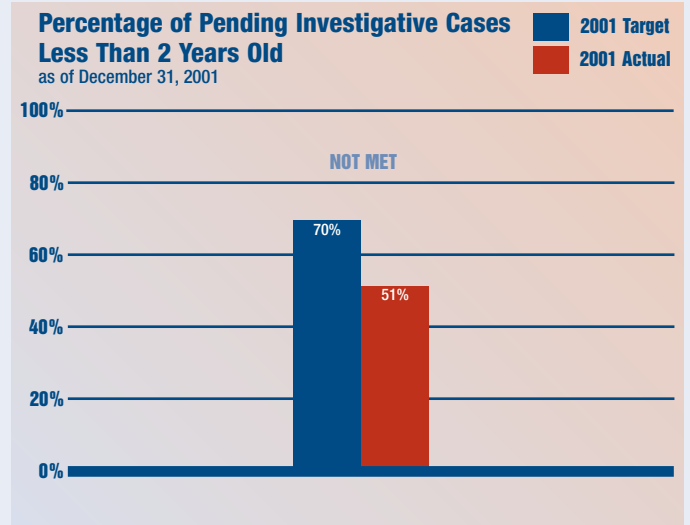
Performance Report

As shown in the top graph -

- We did not meet our goal that at least 70 percent of pending investigative cases are less than 2 years of age. At year-end, only 51 percent of cases (58 out of 108) were less than 2 years old. The goal was not met because investigations are becoming more complex and are taking longer to complete. Also, the Office of Investigations is dealing with a number of personnel actions and has experienced some retirements and resignations.

As shown in the bottom graph -

- We achieved our goal that 100 percent of employee cases, with no criminal prosecution potential, are completed in less than a year. Actual results for the year equaled 100 percent (6 out of 6 cases).



Performance Report

OIG Professional Advice Assists Corporation

We met both of our performance goals in this strategic goal area. One goal relates to our Office of Audits' involvement in conducting assessments or participating in task forces relating to emerging issues, new systems, or other Corporation matters. The second goal relates to reviewing proposed legislation, regulations, and corporate policies.

Emerging Issues and Task Forces

OIG activities in 2001 related to emerging issues and task forces include the following:

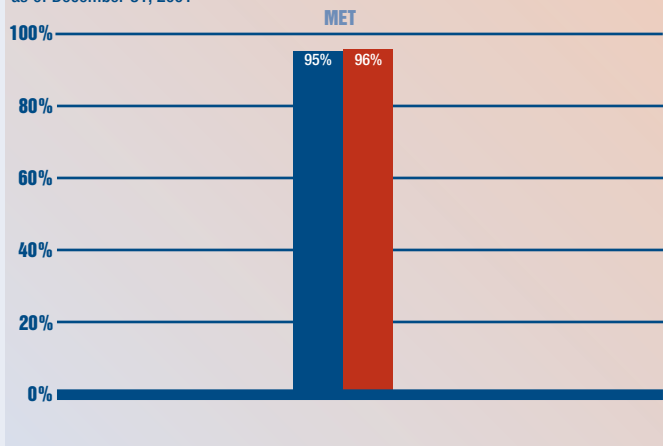
- Participated in a technology meeting in New York and offered suggestions related to e-banking.
- Informed the Division of Information Resources Management (DIRM) of an error in the programming of SCOR (Statistical CAMELS Offsite Rating).
- Participated in meetings and discussions on ways to improve the FDIC's financial and reporting processes.
- Participated in the Division of Supervision's Process Redesign project and provided the Structure Group with information about regional and field office lease costs and field office staffing.
- Assisted DIRM with developing a new process for completing the federally mandated independent security reviews of major applications and general support systems.
- Analyzed key financial reporting areas to determine what improvements the Corporation can make to assist the Division of Finance in preparing complete financial statements more timely.

Reviewing Corporate Policies and Legislative and Regulatory Proposals

As shown in the graph at the top of this page, we met the goal related to reviewing and analyzing proposed corporate policies and legislative and regulatory proposals.

Percentage of Policies Reviewed and Legislative and Regulatory Proposals Analyzed Within Requested Timeframes

as of December 31, 2001



Performance Report

Communicating Effectively With the Chairman, the Congress, and Other Stakeholders

As discussed below, we met six of the eight goals in this strategic goal area.

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

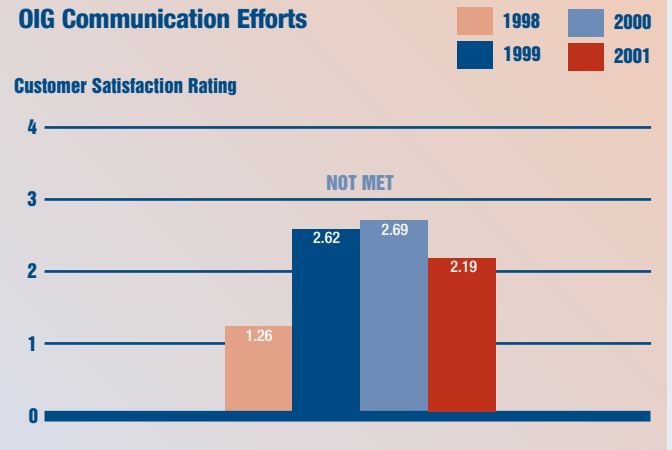
Client Satisfaction (Senior Executives) - The goal to increase the satisfaction of the senior executives with OIG communication efforts above the 2000 rating was not met. As shown in the first graph, the communication rating decreased from 2.69 for 2000 to 2.19 for 2001, that is, a reduction from B- to C/C+ if stated in letter grades. This marked the first year communication scores had decreased after two consecutive years of increases. (Note: For comparison purposes, ratings for 1998 and 1999 were recomputed using the 2000 and 2001 grade numerical equivalent values published with the surveys.) Client survey results suggest the need for OIG executives to have more direct contact and spend more time cultivating relationships with the top FDIC managers than they have during the past year. Survey results depicted in the second graph below showed that the level of understanding of the OIG's mission, role, and functions by the senior executives was generally high; however, this was not a performance goal.

Client Satisfaction (Second-Tier Executives and Managers) - The goal to establish a baseline of FDIC management (below the senior executive level) satisfaction with OIG communications efforts and set future targets was met.

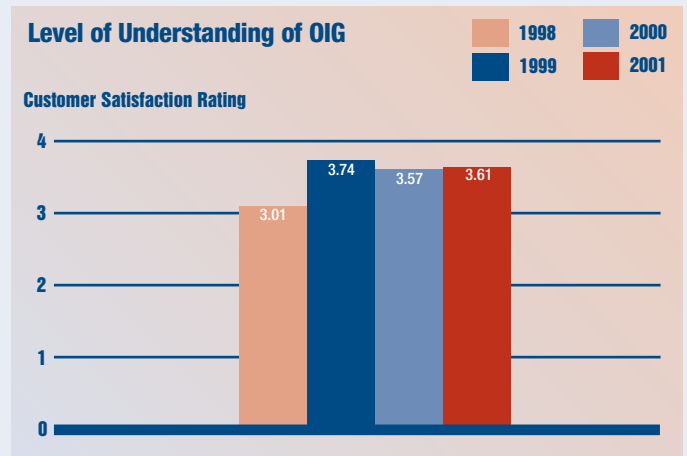
Providing Information to Clients - The goal related to providing information to and interacting with the Congress and corporate officials was met. The *Semiannual Report to the Congress* for the period ending March 31, 2001, which included the OIG 2000 Performance Report, and the *Semiannual Report to the Congress* for the period ending September 30, 2001, were issued in accordance with all statutory requirements. Also, an analysis and assessment of the Corporation's top 10 performance measures was provided to Congressman Dan Burton, Chairman of the House Committee on Government Reform.

Access to Reports - Our goal to provide OIG semiannual reports, audit reports, evaluation reports, and press releases to the FDIC Information Center and the OIG Webmaster in accordance with policy was met.

OIG Communication Efforts



Level of Understanding of OIG



Performance Report

Responding to Congressional, Employee, and Public Inquiries and Requests

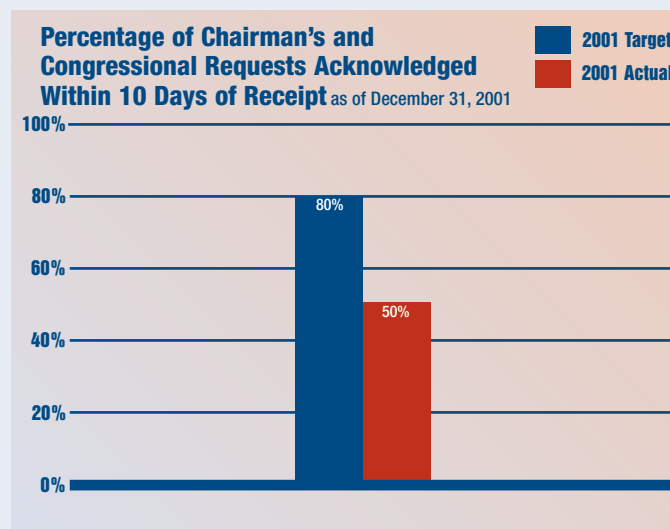
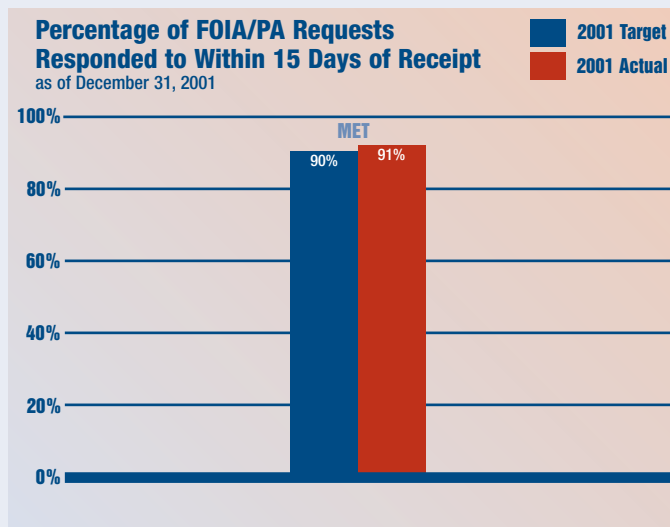
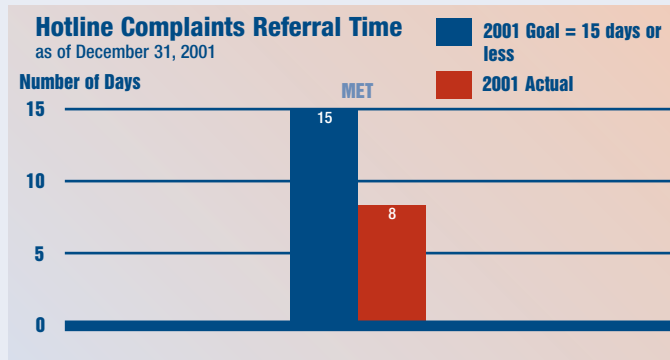
Hotline Complaints and Freedom of Information Act and Privacy Act (FOIA/PA) Requests - As shown in the first graph, the OIG's goal to refer hotline complaints within an average of 15 working days of receipt was met. In meeting this goal, the first graph shows the 2001 "actual" average number of days (8), appropriately, as less than the target (15). As shown in the second graph, the goal to respond to 90 percent of FOIA/PA requests within 15 working days of receipt was also met.

Chairman and Congressional Requests - As shown in the third graph below, the OIG did not meet its goal to timely acknowledge and track the resolution of requests from the Chairman's Office or from the Congress. During 2001, a tracking system was in place which showed that 50 percent (7 of 14) of Chairman's Office or congressional requests were acknowledged within 10 days of receipt. However, it should be noted that the mean (average) time for acknowledging requests or sending final responses in lieu of acknowledgements was 13 days.

Working with PCIE and Other Government Agencies to Address Crosscutting Issues

We met our goal to actively participate in the activities of the President's Council on Integrity and Efficiency (PCIE) and other government activities relevant to the OIG and FDIC. The FDIC Inspector General continues to serve as PCIE Vice Chair and, in this capacity, provides leadership on a wide variety of interagency activities. Significant OIG activities in achieving this goal in 2001 include:

- Publishing the PCIE and the Executive Council for Integrity and Efficiency (ECIE) Strategic Framework and introductory pamphlet on the Inspector General community.
- Overseeing the annual awards program and the PCIE and ECIE retreat.
- Preparing PowerPoint presentations for international visitors and other government audiences.
- Issuing the PCIE's Annual *Progress Report to the President*.
- Participating in the Inspector General community's telework and IGNet task group.



Performance Report

- Coordinating with the PCIE on the Government Information Security Reform Act (GISRA), making a presentation at DIRM's Seminar on GISRA, and discussing the OIG's role in satisfying the Corporation's GISRA requirements.
- Meeting with Inspectors General and staff from the Department of the Treasury and the Board of Governors of the Federal Reserve System on emerging issues for a symposium held in November.
- Coordinating meeting with Treasury OIG and FDIC officials on Office of Foreign Act Control compliance.
- Contributing an article to the Spring/Summer 2001 issue of the PCIE's *Journal of Public Inquiry* on a review of FDIC employee use of the Internet.
- Providing a full-time employee to the Federal Law Enforcement Training Center in support of the federal government OIG training program.
- Continuing to participate in PCIE Results Act Interest Group meetings.
- Funding and facilitating the design of two editions of the *Journal of Public Inquiry*.
- Commenting on various legislative proposals for the PCIE.
- Attending meetings of the Interagency Ethics Council and the Council of Counsels to the Inspectors General.
- Continuing to participate in Assistant Inspectors General for Investigations meetings of the PCIE Offices of Inspector General.

Resource Management Goals

In addition to the strategic goals, the OIG has adopted an operating principle that commits the OIG to the effective management of resources related to staffing; information technology; professional standards and internal controls; communications; legal advice; and administrative services.

Resource management goals relate to internal activities such as implementing the OIG's diversity action plan, completing internal quality assurance reviews; conducting risk assessments and internal control reviews; developing information systems and providing computer services to OIG staff; and providing legal advice and other administrative and support services.

A number of accomplishments and activities were involved in pursuing the OIG's resource management goals in 2001. Some of these are highlighted below:

- We continue to address the five action areas in the OIG's Diversity Action Plan through various diversity-related activities such as attending training sessions, participating in meetings and groups, and issuing quarterly OIG diversity reports.
- A new framework has been developed for a new approach for carrying out our internal Quality Assurance Review responsibilities.
- A new OIG Training and Professional Development System has been developed and is being implemented.
- Laptop computer docking stations were installed in the offices of all headquarters staff slated to receive the systems. Docking stations were also installed in field sites.

- Counsel's office provided advice and counsel on 113 matters which involved some amount of research, in addition to other matters for which responses could be provided immediately. Also, Counsel's office prepared 72 subpoenas for issuance by the Inspector General.
- A new tracking system was implemented to more accurately measure the time frames between the OIG's receipt and payment of invoices. The system should produce excellent results in paying all requisitions, credit cards, and invoices within the established time frame of 5 business days from the receipt of the request for payment.
- We are making substantial progress in meeting all of the OIG's human resources customer service standards for personnel actions.
- An OIG human capital strategic plan has been developed in draft. Work will continue until it is finalized during 2002.
- A number of improvements have been implemented in response to the 2000 survey of OIG staff satisfaction with our internal administrative services.

Performance Report

Detail Listing of Annual Performance Goal Accomplishment

| 2001 Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area) | Goal Accomplishment 2001 | Goal Accomplishment 2000 |
|---|--------------------------------------|--------------------------------------|
| Audits, Evaluations, and Investigations Add Value | | |
| Client Satisfaction | | |
| <p>Audits:</p> <p>Achieve a level of client satisfaction 10 percent above the level achieved in a general client survey for 2000 (survey report issued in 2001) up to a sustaining level of 80 percent of the maximum score possible.</p> <ul style="list-style-type: none"> • Senior level executives • Second-tier executives and managers • Combined | <p>Not Met</p> <p>Met</p> <p>Met</p> | <p>Not Met</p> <p>N/A</p> <p>N/A</p> |
| <p>Evaluations:</p> <p>Achieve a level of client satisfaction 10 percent above the level achieved in a general client survey for 2000 (survey report issued in 2001) up to a sustaining level of 80 percent of the maximum score possible.</p> <ul style="list-style-type: none"> • Senior level executives • Second-tier executives and managers • Combined | <p>Met</p> <p>Not Met</p> <p>Met</p> | <p>Not Met</p> <p>N/A</p> <p>N/A</p> |
| <p>Investigations:</p> <p>Achieve a level of client satisfaction 10 percent above the level achieved in a general client survey for 2000 (survey report issued in 2001) up to a sustaining level of 80 percent of the maximum score possible.</p> <ul style="list-style-type: none"> • Senior level executives • Second-tier executives and managers • Combined | <p>Not Met</p> <p>Met</p> <p>Met</p> | <p>Not Met</p> <p>N/A</p> <p>N/A</p> |
| <p>Achieve an average client satisfaction rating for audit and evaluation reports of 80 percent or greater of the maximum score possible on project-by-project client surveys.</p> | <p>Substantially Met</p> | <p>Met</p> |
| <p>Increase the number of FDIC executives having knowledge or understanding of the Office of Investigations by 33 percent.</p> | <p>Not Met</p> | <p>N/A</p> |
| Quality | | |
| <p>Internal and external quality assurance reviews disclose no material weaknesses and any significant matters identified by reviews are resolved.</p> | <p>Met</p> | <p>N/A</p> |
| <p>Conduct operational reviews every 12 months in each regional office and resolve significant matters identified.</p> | <p>Substantially Met</p> | <p>Substantially Met</p> |

Performance Report

Detail Listing of Annual Performance Goal Accomplishment

| 2001 Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area) | Goal Accomplishment 2001 | Goal Accomplishment 2000 |
|--|--------------------------------|--------------------------------|
| Impact/Results | | |
| 80 percent of audit and evaluation reports [including all types of reporting vehicles] (1) result in management's agreement to implement actions to achieve monetary benefits and improved programs or procedures or (2) provide FDIC management with relevant, timely information needed for decision-making. | Met | N/A |
| 70 percent of closed cases will result in either reports to management, criminal convictions, civil actions, administrative actions, or a combination of these elements. | Met | Substantially Met |
| Establish an Electronic Crimes Team and initiate investigations into unauthorized intrusion into FDIC's computer networks and conduct computer forensic examinations. | Substantially Met | N/A |
| Productivity | | |
| Issue 76 reports or memoranda communicating the results of audits. | Not Met | Substantially Met |
| Issue 12 reports or other reporting vehicles communicating the results of evaluations. | Met | Met |
| More than 68 cases will be closed during the year. | Substantially Met | Met |
| Timeliness | | |
| Issue 80 percent of audit reports or other reporting vehicles within 260 days. | Not Met | Met |
| Issue 80 percent of evaluation reports or other reporting vehicles within time frames agreed upon by OIG and FDIC management or issue report within 180 calendar days if no time frame was agreed upon. | Met | Substantially Met |
| At least 70 percent of active cases will be less than 2 years of age. | Not Met | Not Met |
| 100 percent of employee cases, with no criminal prosecution potential, will be completed in less than a year. | Met | N/A |
| Issue 90 percent of Reports of Investigation within 30 days, and 100 percent of Reports of Investigation within 60 working days, after completion of the case. | Met | Substantially Met |
| Professional Advice Assists Corporation | | |
| Advise on Emerging Issues and Vulnerabilities | | |
| Conduct assessments or participate in FDIC task forces related to emerging issues, new systems, or other matters affecting the Corporation, within time frames that are responsive to corporate needs. | Met | Met |
| Review proposed corporate internal policies and respond to the Corporation and analyze regulatory/legislative proposals within requested time frames 95 percent of the time. | Met | Met |

Performance Report

Detail Listing of Annual Performance Goal Accomplishment

| 2001 Annual Performance Goal (By Strategic Goal Area and Strategic Objective Area) | Goal Accomplishment 2001 | Goal Accomplishment 2000 |
|---|--------------------------------|--------------------------------|
| Communicate Effectively with Clients/Stakeholders | | |
| Communication Efforts and Providing Information on OIG Role/Activities | | |
| Provide OIG Semiannual Reports, Annual Performance Plan, Annual Performance Report, and other information to and interact with the Congress and corporate officials. | Met | Met |
| Achieve a level of FDIC senior executive client satisfaction 10 percent above the level achieved in a general client survey for 2000 (survey report issued in 2001) up to a sustaining level of 80 percent of the maximum score possible. | Not Met | Met |
| Establish a baseline of FDIC management (below the senior executive level) satisfaction with OIG communication efforts and set future targets for client satisfaction. | Met | N/A |
| Provide OIG Semiannual Reports, audit reports, evaluation reports, and press releases to the FDIC Public Information Center and the OIG Webmaster in accordance with policy. | Met | Met |
| Responding to Inquiries and Responses | | |
| Refer OIG Hotline complaints within an average of 15 working days of receipt to appropriate OIG or corporate officials for review and track their resolution. | Met | Met |
| Respond to 90 percent FOIA/PA requests within 15 days of receipt unless deadline is extended in accordance with law, applicable regulation, and OIG policy. | Met | Not Met |
| Acknowledge 80 percent of Chairman's Office or congressional requests within 10 business days of receipt and track their resolution. | Not Met | Substantially Met |
| Interagency Activities | | |
| Actively participate in the President's Council on Integrity and Efficiency and other government activities relevant to the OIG and FDIC. | Met | Met |

Performance Report

Statistical Summary of Performance – 2000 Annual Performance Goals

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

Reporting Terms and Requirements

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

| Reporting Requirement | Page |
|--|-------|
| Section 4(a)(2): Review of legislation and regulations | 47 |
| Section 5(a)(1): Significant problems, abuses, and deficiencies | 11-26 |
| Section 5(a)(2): Recommendations with respect to significant problems, abuses, and deficiencies | 11-26 |
| Section 5(a)(3): Recommendations described in previous semiannual reports on which corrective action has not been completed | 71 |
| Section 5(a)(4): Matters referred to prosecutive authorities | 27 |
| Section 5(a)(5) and 6(b)(2): Summary of instances where requested information was refused | 75 |
| Section 5(a)(6): Listing of audit reports | 72 |
| Section 5(a)(7): Summary of particularly significant reports | 11-26 |
| Section 5(a)(8): Statistical table showing the total number of audit reports and the total dollar value of questioned costs | 74 |
| Section 5(a)(9): Statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use | 74 |
| Section 5(a)(10): Audit recommendations more than 6 months old for which no management decision has been made | 75 |
| Section 5(a)(11): Significant revised management decisions during the current reporting period | 75 |
| Section 5(a)(12): Significant management decisions with which the OIG disagreed | 75 |



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 judgments 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.

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

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

This table shows the corrective actions management has agreed to implement but has not completed, along with associated monetary amounts. In some cases, these corrective actions are different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on information supplied by the FDIC's Office of Internal Control Management (OICM). These 26 recommendations from 5 reports involve monetary amounts of over \$11 million. OICM has categorized the status of these recommendations as follows:

**Management Action in Process:
(6 recommendations from 2 reports, \$0)**

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

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

| Report Number, Title & Date | Significant Recommendation Number | Brief Summary of Planned Corrective Actions and Associated Monetary Amounts |
|--|-----------------------------------|--|
| Management Action In Process | | |
| 01-011 Development of the FDIC's Public Key Infrastructure May 24, 2001 | 3 | Develop an E-government implementation plan that uses the Office of Management and Budget's guidelines for the implementation of the Government Paperwork Elimination Act. |
| EVAL-01-002 FDIC's Background Investigation Process for Prospective and Current Employees August 17, 2001 | 2 | Assess the need to complete new Position Designation Records for position risk designations where FDIC divisions and offices inconsistently applied U.S. Office of Personnel Management criteria in making the designations. |
| | 3 | Re-designate position sensitivity levels for examiner positions to reflect their public trust responsibilities. |
| | 4 | Alert the Security Management Section of all personnel assignments to positions where users have access to sensitive computer systems or data. |
| | 5 | Ensure that new Information Security Manager positions are properly designed and appropriate background checks are performed. |
| | 7 | Establish a specific schedule to update the Corporation's employee security database, the Employee Background Investigation Tracking System. |
| 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. |

| Report Number, Title & Date | Significant Recommendation Number | Brief Summary of Planned Corrective Actions and Associated Monetary Amounts |
|--|-----------------------------------|--|
| Litigation (continued) | | |
| 96-014 Superior Bank, F.S.B., Assistance Agreement, Case Number C-389c February 16, 1996 | 1, 4-16 | Recover \$4,526,389 of assistance paid to Superior Bank. |
| 98-026 Assistance Agreement Audit of Superior Bank, Case Number C-389c March 9, 1998 | 2, 3, 4, 6 | Recover \$1,220,470 of assistance paid to Superior Bank. |
| | 11 | Compute the effect of understated Special Reserve Account for Payments in Lieu of Taxes and remit any amounts due to the FDIC. |

Table I.2: Audit Reports Issued by Subject Area

| Number & Date | Audit Report Title | Questioned Costs | | Funds Put to Better Use |
|---|--|------------------|-------------|-------------------------|
| | | Total | Unsupported | |
| Supervision, Insurance, and Consumer Affairs | | | | |
| 02-005 February 6, 2002 | Issues Related to the Failure of Superior Bank, FSB, Hinsdale, Illinois | | | |
| EVAL-02-001 February 8, 2002 | Evaluation of Rating Differences Between the FDIC and Other Primary Federal Regulators* | | | |
| 02-004 February 20, 2002 | Follow-up Audit of the FDIC's Use of Special Examination Authority and DOS's Efforts to Monitor Large Bank Insurance Risks | | | |
| 02-009 March 26, 2002 | Division of Compliance and Consumer Affairs' Risk-Scoping Process for Fair Lending Examinations | | | |
| 02-013 March 26, 2002 | Effectiveness of Prompt Corrective Action Provisions in Preventing or Reducing Losses to the Deposit Insurance Funds | | | |
| Resolution, Receivership, and Legal Affairs | | | | |
| 01-024 December 5, 2001 | FDIC's Identification of and Accounting for Unclaimed Deposits Transferred to State Unclaimed Property Agencies | | | \$1,451,248 |
| 01-025 December 13, 2001 | Least Cost Test Model | | | |
| 02-002 February 8, 2002 | Least Cost Decision of Superior Bank and Liquidation of Remaining Receivership Assets | | | |
| 02-006 March 5, 2002 | DRR's Efforts to Facilitate Collections on Criminal Restitution Orders | | | \$123,450 |

Table I.2: Audit Reports Issued by Subject Area (continued)

| Number & Date | Audit Report Title | Questioned Costs | | Funds Put to Better Use |
|--|--|------------------|-------------|----------------------------|
| | | Total | Unsupported | |
| Information Assurance | | | | |
| 02-001 January 2, 2002 | Follow-up Audit of Internal Controls Over the Customer Information and Control System for the FDIC Financial Systems | | | |
| 02-003 February 14, 2002 | Controls Over Outlook Resources | | | |
| 02-008 March 22, 2002 | FDIC's Efforts to Implement a Single Sign-on Process | | | |
| 02-011 March 26, 2002 | FDIC's Excess Computer Hard Drive Sanitation Process | | | |
| 02-012 March 28, 2002 | Security and Controls Over the Risk Analysis and Value Estimation (RAVEN) System | | | |
| 02-015 March 29, 2002 | FDIC's Dividend Processing System | | | |
| Resource Management | | | | |
| EVAL-01-004 December 7, 2001 | The New Financial Environment Project* | | | |
| 02-007 March 21, 2002 | FDIC's Program for Managing FDIC-Owned Buildings at Headquarters | | | |
| 02-010 March 22, 2002 | Contractor Billing Audit [▼] | \$50,460 | | |
| 02-014 March 29, 2002 | Capitalization of Internal-Use Software Development Costs | | | |
| TOTALS FOR THE PERIOD | | \$50,460 | \$0 | \$1,574,698 |
| * An evaluation report. | | | | |
| ▼ In addition, this report identified \$252,675 in unresolved costs which may result in additional disallowed amounts. | | | | |

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. | 1 [▲] | 50,460 | 0 |
| Subtotals of A & B | 1 | 50,460 | 0 |
| C For which a management decision was made during the reporting period. | 1 | 50,460 | 0 |
| (i) dollar value of disallowed costs. | 1 | 50,460 | 0 |
| (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 |

[▲] In addition, this report identified \$252,675 in unresolved costs which may result in additional disallowed amounts.

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

| | Number | Dollar Value |
|--|----------|------------------|
| A. For which no management decision has been made by the commencement of the reporting period. | 0 | 0 |
| B. Which were issued during the reporting period. | 2 | 1,574,698 |
| Subtotals of A & B | 2 | 1,574,698 |
| C. For which a management decision was made during the reporting period. | 2 | 1,574,698 |
| (i) dollar value of recommendations that were agreed to by management. | 0 | 0 |
| - based on proposed management action. | 0 | 0 |
| - based on proposed legislative action. | 0 | 0 |
| (ii) dollar value of recommendations that were not agreed to by management. | 2 | 1,574,698 |
| 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 |

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.

Abbreviations and Acronyms

| | |
|-------------|---|
| AID | Agency for International Development |
| ATM | Automated Teller Machine |
| BIF | Bank Insurance Fund |
| BOA | Bank of America |
| CD | Certificates of Deposit |
| CICS | Customer Information and Control System |
| DCA | Division of Compliance and Consumer Affairs |
| DIRM | Division of Information Resources Management |
| DOS | Division of Supervision |
| DPS | Dividend Processing System |
| DRR | Division of Resolutions and Receiverships |
| E&Y | Ernst & Young |
| ECIE | Executive Council on Integrity and Efficiency |
| ECT | Electronic Crimes Team |
| FBI | Federal Bureau of Investigation |
| FDIC | Federal Deposit Insurance Corporation |
| FOIA/PA | Freedom of Information Act and Privacy Act |
| FSBH | First State Bank of Harrah |
| GAO | U.S. General Accounting Office |
| GISRA | Government Information Security Reform Act |
| HCSB | Hartford-Carlisle Savings Bank |
| IFS | Institution for Savings |
| IG | Inspector General |
| IRS | Internal Revenue Service |
| IT | Information Technology |
| JTTF | Joint Terrorism Task Force |
| OI | Office of Investigations |
| OICM | Office of Internal Control Management |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| OTS | Office of Thrift Supervision |
| PB&T | Pueblo Bank and Trust Company |
| PCA | Prompt Corrective Action |
| PCIE | President's Council on Integrity and Efficiency |
| RAVEN | Risk Analysis and Value Estimation System |
| Results Act | Government Performance and Results Act |
| RLS | Receivership Liability System |
| RTC | Resolution Trust Corporation |
| SAIF | Savings Association Insurance Fund |
| SCERS | Seized Computer Evidence Recovery Specialists |



In Memory

James A. Renick



James A. Renick died of a heart attack on February 5, 2002. Jim retired from the FDIC in March 2000 after more than 23 years of service. Jim was involved in almost every aspect of audit and investigative activities at the FDIC. He joined the Corporation in 1976 as Assistant Director of the Office of Corporate Audits which in 1989 became the Office of Inspector General. At that time, he became the Deputy Inspector General, a position he held until then-Acting Chairman Andrew Hove selected him as the FDIC's Inspector General upon the retirement of Robert Hoffman in 1993. When the Congress amended the Inspector General Act in 1993 to designate the position of Inspector General at the FDIC a presidential appointment, Jim served as Acting Inspector General for more than 2 years until current Inspector General Gaston L. Gianni, Jr., was named Inspector General in April 1996. Jim served as Principal Deputy Inspector General until his retirement.

Family, friends, and colleagues celebrated Jim's retirement together on March 30, 2000. At the time of his death, Jim resided in Fredericksburg, Virginia, with his wife, Marilyn. He is survived by his wife, three children, and eight grandchildren.



OIG Hotline

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

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<http://www.fdic.gov/oig>

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