Congressional Budget Justification for Fiscal Year 2025

March 2024

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Federal Deposit Insurance Corporation
Office of Inspector General

MISSION AND VISION

The Federal Deposit Insurance Corporation (FDIC) insured approximately $10.5 trillion in deposits at 4,623 banks and savings associations and directly supervised about 2,670 of these banks as of September 30, 2023. It aims to promote the safety and soundness of these institutions by identifying, monitoring, and addressing risks to which they are exposed. The FDIC (Agency) receives no discretionary appropriations from Congress; the Agency is primarily funded by premiums that banks and thrift institutions pay for deposit insurance coverage and earnings on investments in U.S. Treasury securities.

The FDIC Office of Inspector General (OIG) is an independent organization established under the Inspector General (IG) Act of 1978, as amended. The FDIC OIG's mission is to prevent, deter, and detect fraud, waste, abuse, and misconduct in FDIC programs and operations; and to promote economy, efficiency, and effectiveness at the Agency. In carrying out its mission, the FDIC OIG:

- Conducts audits, evaluations, reviews, and investigations;
- Reviews existing and proposed legislation and regulations; and
- Keeps the FDIC Chairman and the Congress informed of problems and deficiencies relating to FDIC programs and operations.

The vision for the Office is to serve the American people as a recognized leader in the Inspector General community:

- Driving change and making a difference by prompting and encouraging improvements and efficiencies at the FDIC; and
- Helping to preserve the integrity of the Agency and the banking system and protect depositors and financial consumers.

SOURCE OF OIG FUNDING

The primary source of funding for the FDIC OIG is the Deposit Insurance Fund (DIF), which is primarily funded by premiums that banks and savings associations pay for deposit insurance coverage. The FDIC OIG receives no taxpayer dollars.

FDIC OIG's budget authority is based in the Federal Deposit Insurance Act (FDI Act) and annual appropriations. The FDI Act provides permanent authority for the FDIC to fund its operations from the DIF without further appropriation, and this was the sole authority for OIG funding from its establishment in 1989 through Fiscal Year (FY) 1997. Beginning in FY 1998, to promote the independence of the OIG, the Congress has specified in annual appropriations acts the amount from the DIF that is to be allocated to the OIG for the OIG's exclusive use. Although the amount of funding is specified in the appropriations acts, the acts have also specified that the source of the funding remains the DIF created by the FDI Act, not the U.S. Treasury. Through its annual budget process as authorized by the FDI Act, the FDIC, at the beginning of each calendar year, allocates an amount from the DIF to the OIG. This figure has been calculated in recent years by estimating the amount to be specified in appropriations and is later adjusted if enacted appropriations specify an amount different from the estimate.

The FDIC OIG appropriation does not count against Appropriations Subcommittee allocations under section 302(b) of the Congressional Budget Act.

PROPOSED FISCAL YEAR 2025 BUDGET

For FY 2025, the OIG requests a total of $52.6 million -- approximately 5 percent above the OIG's budget request for FY 2024 of $49.8 million.

The requested budget would maintain flat staffing levels, sustain prior investments in information technology and data analytics, and support oversight focused on cybersecurity, statutorily-mandated reviews of failed banks, the resolution and receiverships of the largest bank failures in U.S. history, and congressionally requested reviews of workplace culture and harassment allegations at the FDIC. The budget would further support investigations conducted by Special Agents. The requested level is also consistent with budget planning of the FDIC parent agency, which is planning a 2024 budget increase of greater than 5 percent and an increase of 350-500 Full Time Equivalents (FTE), including staff to address increased workload resulting from several large bank failures in March 2023.

Current Baseline

The FDIC OIG budget is largely driven by personnel and benefits costs. Estimated salaries and benefits costs for FY 2024 are $44 million, which represents 88 percent of the budget. As of January 31, 2024, the OIG had 143 staff on board. By the end of calendar year 2024, the expected number of staff on board will be 146, with an additional 7 positions in various states of the hiring process.

We project we will maintain a full staffing level of 153 FTEs during FY 2025 with projected salaries and benefits of $46 million (approximately 87 percent of the budget). Our highly-experienced and specially-trained OIG workforce is our greatest asset, and our professional staff of auditors, evaluators, and investigators is critical to conducting effective oversight of complex regulatory and investigative issues in the banking sector. Approximately 67 of these OIG positions are Special Agents in the 1811 job series, with a higher cost structure due to availability pay and higher benefits costs for retirement funding. While the OIG plans to maintain the same number of FTEs from FY 2024 to FY 2025, the increase in salaries and benefits is based on compensation increases set by the FDIC parent agency, which differ from government-wide GS scale increases.

The baseline also includes expenses for recurring non-personnel categories such as investigative travel, purchases and leases of equipment and supplies, and subscriptions and licenses for research and IT resources. The request includes sufficient funding for OIG employee training, and mandatory contributions to the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which is 0.40 percent of the budget request, or $210,528.

The FDIC OIG's budget request for FY 2025 continues to build on important investments included in its budget for FY 2024 – with a special emphasis on data analytics and IT infrastructure to include cybersecurity. The related investment includes maintaining and sustaining prior investments in personnel, hardware, and software that support evidence gathering and data-driven oversight of the Agency. The proposed budget also includes contingent funding of $1 million if there are more bank failures requiring the OIG to conduct statutorily mandated Material Loss Reviews or Failed Bank Reviews.

Sustain Prior Investments

Data Analytics and IT Infrastructure

In FY 2025, the OIG proposes a budget that sustains and expands our past investment in personnel uniquely skilled in cybersecurity audits, cybercrime investigations, data analytics, and information technology, as well as supports personnel to ensure the OIG's administrative and fiscal accountability. Over the past 2 years, we have increased our capabilities for cybersecurity audits, evaluations, and reviews by hiring and sustaining auditors with enhanced information technology skills and supplementing the staff's technical knowledge with contractors possessing specialized IT skillsets. This has allowed us to perform highly technical oversight work, including audits of the FDIC's Cloud Governance, Cloud Security, and Ransomware Readiness. This work is just the beginning of a body of technical audits, evaluations, and reviews that will allow us to identify additional IT risks and assess the FDIC IT network. We have also increased our capabilities to conduct complex cybercrime investigations through investments in digital forensics infrastructure and hiring and sustaining highly trained Special Agents certified in cyber and digital forensics skill sets.

The OIG's investment in data analytics has advanced data governance, security standards, and access to many analytical tools. When it is possible, to protect the integrity of OIG operations, we partner with the FDIC to gain access to cloud storage and computing to expand the OIG's analytical capabilities, while reducing redundancy and cost. The OIG's analytical use of the FDIC data lake[1] is scheduled in FY 2024, which will provide a secure, high-performance analytical environment for engagement with the FDIC and raise internal OIG efficiency.

Sustaining these investments will advance the OIG's efforts to conduct highly technical oversight work, develop electronic management tools, operational analytics, and performance reporting, as well as provide additional data access and analytical capabilities for our audits, evaluations, reviews, and investigations. The increased use

[1] A data lake is a centralized repository designed to store, process, and secure large amounts of structured, semi-structured, and unstructured data.

of data analytics will promote efficiency in the OIG, thereby allowing the OIG to focus its resources on critical oversight areas, such as complex fraud schemes, systemic weaknesses at the Agency, and cybersecurity threats.

Plan for Contingencies

Material Loss Reviews and Failed Bank Reviews

If a bank fails and results in a loss to the DIF above $50 million, the FDIC OIG is required by statute to complete a Material Loss Review (MLR) within 6 months. If a bank fails and causes a loss to the DIF at or below $50 million, the FDIC OIG is required by statute to complete a Failed Bank Review (FBR).

In FY 2023, we saw the failure of four insured depository institutions, including three of the largest bank failures in U.S. history. Two of these banks were primarily supervised by the FDIC and required the OIG to complete MLRs. From these failures, we were reminded how quickly a bank's liquidity issues can result in failure and create contagion effects for other financial institutions. Events like these lead to additional required FDIC OIG work in a compressed time frame.

In recognizing the economic and financial uncertainties resulting from the pandemic, we implemented a contingent contract vehicle only to be executed if a bank failure occurred, and we were required to conduct an MLR or FBR. Having this contract in place and funding in FY 2023 allowed us to perform the MLR work quickly and meet the statutory deadlines with minimal interruption to our other important oversight work. This type of preparedness is consistent with the FDIC's contingency planning for bank failures, and it is necessary to ensure the FDIC OIG's ability to respond to an economic downturn that may impact the banking sector.

The lingering impacts of the pandemic on the banking sector remain uncertain, including the impacts on Commercial Real Estate lending. In FY 2025, we could see an increase in the number of bank failures, and we must remain ready to conduct our statutorily required reviews of such failures via our contingent contract vehicle.

Work Requested by Congress

Resolution and Receivership Oversight

The four banks that failed in FY 2023 had $548.6 billion of combined assets, the largest asset total related to FDIC-insured bank failures ever in a single year, well surpassing the $349.2 billion in assets of the 14 banks that failed at the start of the financial crisis in FY 2008. The FDIC is responsible for resolving the failed institutions using statutory criteria, which normally requires the least costly option to minimize losses to the Deposit Insurance Fund. The FDIC is also responsible for managing the receivership assets of the failed institutions to preserve their value and to dispose of them as quickly as possible with the objective of maximizing the net return on those assets. The FDIC has substantially increased its budget as a result of this resolution and receivership work.

Given the significance of the FY 2023 bank failures, Congressional committees have requested that we evaluate the FDIC's resolution and receivership activities for the three largest bank failures – Silicon Valley Bank, Signature Bank, and First Republic Bank. It will take years for the FDIC to complete all of its receivership responsibilities related to these banks - including the liquidation of the remaining failed institution assets and distribution of any proceeds from the liquidation - and these actions will require oversight and reporting by the OIG. We have planned a series of projects that will determine the adequacy of the FDIC's readiness and response activities for the resolution and receivership processes for the FY 2023 bank failures.

Oversight of the FDIC's Workplace Culture

In November 2023, the Wall Street Journal reported allegations of an abusive culture of sexual harassment and discrimination within the FDIC, a lack of internal processes encouraging reporting, and ineffective responses to such allegations. As a result, Congressional committees questioned whether the FDIC had implemented meaningful changes after the issuance of the OIG's 2020 evaluation report on *Preventing and Addressing Sexual Harassment* and also requested the OIG to conduct an investigation into the FDIC's workplace culture.

We have an evaluation ongoing to determine whether the FDIC implemented an effective Sexual Harassment Prevention program to facilitate the reporting of sexual harassment allegations and address reported allegations in a prompt and effective manner. We have also launched a special inquiry to determine: (1) employee perceptions of the FDIC workplace culture with respect to harassment, or related misconduct, and management actions; (2) FDIC management's actions to review, process, and address complaints of harassment and related misconduct, including the management of related litigation; (3) FDIC executives' knowledge of harassment and related misconduct and what actions (if any) were taken in response; and (4) factual findings regarding selected allegations that senior officials personally engaged in harassment or related misconduct.

We expect this body of work to identify additional risk areas warranting OIG oversight of the FDIC's workplace culture.

Funding Law Enforcement Investigations

Bank Failures, Bank Insiders, and Other Fraud Investigations

The OIG's Office of Investigations helps preserve the integrity of the banking system through a comprehensive nationwide program for the prevention, deterrence, detection, and investigation of criminal, civil, and administrative misconduct impacting FDIC programs and operations.

Our office plays a key role in investigating sophisticated schemes of bank fraud, embezzlement, money laundering, cyber-crime, and many other fraudulent activities affecting FDIC-supervised or insured institutions. Whether it is bank executives who have caused the failures of banks, or criminal organizations stealing from Government-guaranteed loan programs – these cases often involve bank directors and officers, Chief Executive Officers, attorneys, real estate insiders, financial professionals, crypto firms and exchanges, Financial Technology (FinTech) companies, and international financiers.

In FY 2023, we opened 91 cases and closed 67. Our investigations resulted in 150 indictments, 109 convictions, 131 arrests; and more than $945 million in fines, restitution ordered, assessments, forfeitures, and other monetary recoveries. In one of our cases, the former Chief Executive Officer of the failed First NBC Bank was sentenced to 14 years and 2 months of imprisonment for bank fraud and making false statements in bank records. He was ordered to pay restitution totaling over $214 million to the FDIC. In another case, a Federal jury in Chicago convicted two real estate developers of participating in a conspiracy that embezzled millions of dollars from the failed Washington Federal Bank for Savings in Chicago. In yet another case, executives of a health technology company were convicted in a billion-dollar corporate fraud scheme.

Cyber-crime Investigations

Our Electronic Crimes Unit (ECU) is an important component within our Office of Investigations. Over the past several years, the OIG ECU has worked to overhaul and revamp its digital forensic laboratory. The ECU forensic laboratory helps analyze voluminous electronic records in support of complex financial fraud investigations, including bank failures, nationwide. The ECU forensic laboratory analyzes electronically stored information and provides a platform for complex data analysis, eDiscovery, and forensic data services.

Maintaining these substantial investments in our ECU ensures that in addition to digital forensic capabilities, our agents are equipped with the latest cutting-edge technology and tools. We are focusing on cyber-crimes at FDIC-supervised or insured institutions, including computer intrusions, elder abuse, account takeovers, supply chain attacks, phishing, denials of service, and ransomware attacks. Our ECU is working to ensure that there are early-warning notifications, so that we can investigate and coordinate a law enforcement response against such adversarial cyber-attacks.

Increased Requirements for Oversight and Modernization

On May 25, 2022, the President issued Executive Order 14074 on *Advancing Effective, Accountable Policing and Criminal Justice Practices to Enhance Public Trust and Public Safety*. Aligning with the requirements outlined in Executive Order 14074, the Office of Investigations implemented a Body Worn Camera Program for all of our Federal law enforcement officers (Special Agents). Additional requirements of Executive Order 14074 addressed Federal Law Enforcement Officer Wellness, Providing Federal Law Enforcement Officers with Clear Guidance on Use of Force Standards, Providing Agents with evidence-informed training consistent with Department of Justice Use of Force Policy, Affirmative Duty to render or request medical aid, and Affirmative Duty to intervene or stop another officer from using excessive force. In addressing each of these requirements, the Office of Investigations made significant investments in training, tools, and technology required to comply with the order. Each of these requires sustained funding to comply with and achieve the goals of the Executive Order: “to Enhance Public Trust and Public Safety.”

CONCLUSION

We remain committed to responsible stewardship of our Congressional funding and effective working relationships with the FDIC as we provide critical oversight of the Agency. We will prompt and encourage improvements and efficiencies in FDIC programs and operations and help preserve the integrity of the banking system.

With funding for FY 2025, we will continue to focus on cutting-edge information technology infrastructure and cybersecurity issues and employ data analytics to identify areas of concern and make data-driven decisions.

Requested funding will also support FDIC OIG priorities to conduct quality audits, evaluations, and reviews in a timely manner; issue reports based on reliable evidence and sound analysis; and make meaningful recommendations focusing on outcome-oriented impact and cost savings. With needed financial and human resources, we will be able to conduct statutorily required work, including MLRs and, where warranted, FBRs, and to pursue matters regarding the subsequent resolution of failed institutions. These funds will also allow us to conduct highly important work responsive to Congressional concerns over the workplace culture and environment at the FDIC.

Finally and importantly, requested funding will allow us to continue to successfully join our law enforcement partners in investigating significant financial crimes impacting the FDIC and the Nation’s banks. Working together, we will bring to justice those who seek to undermine the mission of the FDIC and the integrity of the banking system—efforts that to date have yielded a high return on our investment.

FDIC Office of Inspector General
Budget Comparison
($ in thousands)

Object Classification	FY 2023 Actuals	FY 2024 Estimated	FY 2025 Request
11.1 Full-Time Equivalent	24,870	27,400	29,600
11.5 Other Personnel Compensation	2,004	1,600	1,300
11.9 Total Personnel Compensation	**26,874**	**29,000**	**30,900**
12.1 Civilian Personnel Benefits	13,611	13,600	14,832
21.0 Travel and Transportation of Persons	1,620	1,700	1,800
22.0 Transportation of Things	0	0	0
25.0 Other Services	2,898	1,600	3,600
26.0 Supplies and Materials	97	100	100
31.0 Equipment	1,866	1,500	1,400
Total	**46,966**	**47,500**	**52,632**
Full-Time Equivalent	138	153	153