MISSION AND VISION

The Federal Deposit Insurance Corporation (FDIC) was created in 1933 to restore public confidence in the nation’s banking system. The FDIC insures more than $9 trillion in deposits at approximately 5,000 banks and savings associations. It aims to promote the safety and soundness of these institutions by identifying, monitoring, and addressing risks to which they are exposed. The Agency does not receive any Congressional appropriation; the Agency is 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 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, 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 source of funding for the FDIC OIG is the Deposit Insurance Fund (DIF), which is funded by premiums that banks and savings associations pay for deposit insurance coverage. The FDIC OIG receives no taxpayer dollars.

FDIC OIG budget authority has two sources: the Federal Deposit Insurance Act (FDI Act) and annual appropriations acts. 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, in
order 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 is calculated by estimating the amount to be specified in appropriations, and is later adjusted if enacted appropriations specify an amount different from the estimate.

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

**VALUE FROM OIG OVERSIGHT GREATLY EXCEEDS RESOURCE INVESTMENT**

The audit and investigative work of the FDIC OIG consistently produces quantitative returns, in addition to qualitative benefits of improving the efficiency of the FDIC and the integrity of the banking sector.

FDIC OIG investigations have led to civil and criminal penalties, fines, restitution orders, and asset forfeitures that vastly exceed the OIG’s budget. For example, FDIC OIG agents were key contributors to an investigation into banking practices at Wells Fargo, which resulted in a $3 billion settlement in February 2020. Although the multi-year nature of financial investigations causes year-to-year totals to vary, over the past 5 years (FY 2016-FY 2020), FDIC OIG operations have generated more than $5.2 billion in fines, restitution ordered, and forfeitures – more than 25 times the amount of OIG funding during that same time period. These efforts have brought to justice numerous individuals who have attempted to defraud the banking industry, and importantly, these investigations generate a message of deterrence that helps to preserve the integrity of the banking sector.

In addition, the OIG reviews have resulted in corrective action to improve systemic weaknesses at the FDIC. In particular, our recommendations have directly led to greater efficiencies and improvements in the FDIC’s information security posture, supervision of cyber risks at banks, Enterprise Risk Management, Personnel Security, and Crises Readiness.

**PROPOSED FISCAL YEAR 2022 BUDGET**

For FY 2022, the OIG’s proposed budget is $46.5 million to conduct oversight of the FDIC and its role regulating and insuring the nation’s banks. The FDIC OIG may be required to take on additional projects and responsibilities, which we expect could continue and increase in FY 2022. The OIG’s budget has remained flat for the past 3 years. The OIG budget for FY 2022 maintains the existing baseline and staffing structure, and proposes a modest increase in
positions to meet additional workloads resulting from the economic impact of the pandemic and our role in investigating fraud related to the Paycheck Protection Program (PPP) and other pandemic relief programs. See Appendix A for the comparison of FYs 2020, 2021, and 2022.

**Oversight Responsibilities for Pandemic-Related Economic Effects and Relief Funding**

The FDIC OIG has increased oversight responsibilities due to 1) the economic effects of the pandemic on the banking sector and 2) potential waste and fraud in pandemic-related relief funding.

**Economic Effects of Pandemic**

The pandemic has already led to unprecedented changes in the banking sector requiring intervention from the FDIC, and such changes are expected to continue into FY 2022.

For example, in 2020, FDIC-insured depository institutions reported extraordinary growth in insured deposits of more than $1 trillion. Because of this growth, the reserve ratio of the DIF has fallen below the statutory minimum, and the FDIC Board has adopted a restoration plan to monitor the rapidly evolving and uncertain economic circumstances. Since March 2020, the FDIC has responded to changing economic conditions by enacting new rules adjusting the bank leverage ratio framework, exempting participation in pandemic-related relief programs from deposit assessment calculations, and deferring real estate appraisal requirements. In February 2021, the FDIC Chairman stated that the low interest rate environment coupled with economic uncertainties will continue to challenge the banking industry, placing downward pressure on revenue and net interest margin.

Key economic indicators have also shown significant volatility in 2020 and 2021, creating uncertainty for the banking sector. Real gross domestic product (GDP) decreased at an annual rate of 31.4 percent in the second quarter of 2020, before increasing at an annual rate of 33.4 percent in the third quarter. The unemployment rate increased sharply from 4.4 percent in March 2020 to 14.8 percent in April 2020, before declining to 6 percent in March 2021. Small businesses received more than $770 billion in loans through the Paycheck Protection Program through April 2021.

Although the ultimate impact of this economic volatility on the banking sector in the coming years is uncertain, the rapidly changing environment itself creates additional responsibilities for the FDIC to react to and actively manage changing circumstances.

As the FDIC plays an expanded role in the banking sector, the need for the OIG to effectively oversee FDIC programs and operations increases. In addition, the FDIC OIG is required by statute to review each failed institution for which FDIC is the primary Federal regulator. In instances where the loss to the FDIC’s DIF is greater than $50 million, the OIG is required to
conduct a Material Loss Review to determine the causes of failure and evaluate the FDIC’s supervision of the failed institution.\(^1\)

Based on trends from previous financial crises, in which the onset of economic disruption led to an increase in bank failures, prudent planning requires the OIG to prepare for a potential increase in bank failures that trigger a statutory mandate for OIG work in the upcoming years.

**Waste and Fraud in Pandemic Relief Funding**

In addition to the effects of the pandemic on the economy, the Government response to the pandemic has introduced significant increases in federal spending, along with mechanisms to oversee waste and fraud in that spending.

The U.S. government has provided more than $5 trillion in pandemic relief through various federal programs. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) established the Pandemic Response Accountability Committee (PRAC) to “promote transparency and conduct and support oversight of covered funds and the Coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.” The FDIC OIG is a member of the PRAC and is responsible for investigations to ensure that these response funds are used appropriately.

Pursuant to our role in the PRAC and working with the Department of Justice and our law enforcement partners, the FDIC OIG has already initiated investigations of dozens of fraud cases in Paycheck Protection Program loans funded through FDIC-regulated and FDIC-insured institutions. We expect these complex investigations and resulting prosecutions to continue into FY 2022. In addition, the FDIC OIG is working with law enforcement partners to conduct data analytics to uncover additional fraud schemes, and we expect to launch new investigations into those schemes in FY 2022.

**Impact on OIG Budget**

As in previous years, the FDIC OIG budget is largely driven by personnel and benefits costs, which constitute approximately 88 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 (Special Agents) is critical to conducting effective oversight of complex regulatory and investigative issues in the financial sector.

\(^1\) 12 U.S.C. § 1831o(k)
CONCLUSION

The FDIC OIG fulfills a critical oversight role at the FDIC and resolves to carry out the OIG mission to preserve the integrity of the agency and banking system. With requested funding for FY 2022, we will continue to conduct quality audits and evaluations in accordance with the highest professional standards, issue reports based on reliable evidence and sound analysis, make meaningful recommendations focusing on outcome-oriented impact and cost savings, and follow up to ensure proper implementation of those recommendations. Similarly, in conducting investigations, we will adhere to high professional standards, pursue important and relevant cases with the greatest impact, and maintain positive working relationships with the FDIC and law enforcement partners.

Our work in FY 2022 will build on past efforts and focus on challenges and issues in the fluid banking and economic environment created by COVID-19. We remain committed to serving the American people as a recognized leader in the Inspector General community.
## Appendix A

### FDIC Office of Inspector General

#### Budget Comparison

($ in thousands)

<table>
<thead>
<tr>
<th>Object Classification</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Appropriation</th>
<th>FY 2022 Request</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1 Full-Time Equivalent</td>
<td>$22,075</td>
<td>$23,877</td>
<td>$25,145</td>
</tr>
<tr>
<td>11.5 Other Personnel Compensation</td>
<td>$1,016</td>
<td>$825</td>
<td>$1,191</td>
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<tr>
<td><strong>11.9 Total Personnel Compensation</strong></td>
<td><strong>$23,091</strong></td>
<td><strong>$24,702</strong></td>
<td><strong>$26,336</strong></td>
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<tr>
<td>12.1 Civilian Personnel Benefits</td>
<td>$10,775</td>
<td>$10,895</td>
<td>$12,765</td>
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<tr>
<td>21.0 Travel and Transportation of Persons</td>
<td>$768</td>
<td>$1,228</td>
<td>$1,447</td>
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<tr>
<td>22.0 Transportation of Things</td>
<td>$14</td>
<td>$14</td>
<td>$14</td>
</tr>
<tr>
<td>25.0 Other Services</td>
<td>$2,350</td>
<td>$3,865</td>
<td>$4,285</td>
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<tr>
<td>26.0 Supplies and Materials</td>
<td>$30</td>
<td>$15</td>
<td>$15</td>
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<tr>
<td>31.0 Equipment</td>
<td>$1,748</td>
<td>$2,263</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$38,776</strong></td>
<td><strong>$42,982</strong></td>
<td><strong>$46,500</strong></td>
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<tr>
<td>Full-Time Equivalent (actual/projected)</td>
<td>127</td>
<td>135</td>
<td>144</td>
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