



**Congressional Budget Justification
for Fiscal Year 2023**

March 2022

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Federal Deposit Insurance Corporation
Office of Inspector General

MISSION AND VISION

The Federal Deposit Insurance Corporation (FDIC) insures approximately \$9.5 trillion in deposits at approximately 4,950 banks and savings associations and directly supervises about 3,200 of these banks. 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) 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 tax 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 than 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 EXCEEDS RESOURCE INVESTMENT

The audit and investigative work of the FDIC OIG consistently produces quantitative returns in the form of cost savings, criminal fines, forfeitures, and restitution ordered.

FDIC OIG Investigations. The OIG's Special Agents work closely with law enforcement partners to investigate criminal and administrative matters involving complex multi-million-dollar schemes of bank fraud, embezzlement, money laundering, and other crimes committed by corporate executives, bank insiders, and financial professionals. These efforts are intended to ensure integrity in the Nation's banking system. During Fiscal Year (FY) 2021, our cases resulted in 140 indictments, 95 convictions, 87 arrests, and more than \$415 million in fines, restitution ordered, and monetary recoveries.

The Office of Investigations strives to identify and investigate the most significant fraudulent schemes that may impact FDIC operations or the Nation's financial institutions. Working with our law enforcement partners, we coordinate and collaborate to combat criminal activity and hold individuals accountable for criminal behavior. An example of this strategic process is the significant role our Office continues to play in the prosecution of individuals and organized groups perpetrating fraud through the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the American Rescue Plan, in conjunction with other members of the law enforcement and IG communities. Shortly after this program was initiated, the FDIC OIG played a leadership role in analyzing referrals of criminal

behavior associated with the PPP and coordinated with prosecutors and law enforcement partners throughout the Nation to investigate this egregious behavior. Our Office worked with prosecutors to bring the first charge against two individuals for submitting fraudulent claims to receive PPP funds.

Several examples of our recent investigative successes are highlighted below:

- A former Chairman and Chief Executive Officer (CEO) of a bank was sentenced to one year in prison and ordered to pay a \$1.25 million fine for financial institution bribery and conspiracy to commit financial institution bribery. The former CEO exploited his position in an effort to secure a valuable personal benefit for himself. To conceal the unlawful nature of his scheme, the former CEO made false and misleading statements to the Office of the Comptroller of the Currency.
- A former Chairman and founder of a mortgage company was sentenced to 104 months in prison and ordered to pay \$51.8 million in restitution for a bank fraud and money laundering scheme. The mortgage company refinanced loans without sending the payoff proceeds to the banks, received payoffs from borrowers on the resulting loans that it serviced, and never repaid the banks. Also, the mortgage company obtained loan funds from the banks for loans that never closed and failed to return the funds to the banks.
- A former bank president was sentenced to 8 years in prison for an arson and fraud scheme. The former bank president was also ordered to pay \$11.1 million in restitution. As the bank president, for a period of nearly 10 years, this individual misapplied more than \$11.1 million of the bank's funds for her personal benefit. She created more than 100 fraudulent loans on the bank's books and records and used the proceeds for her personal expenses. She also attempted to hide the evidence by setting a fire in the bank's conference room in an effort to hide this criminal activity from bank examiners shortly before an exam was to begin.
- A man pleaded guilty to one count of wire fraud and one count of money laundering in a \$24 million COVID-Relief fraud scheme. He was sentenced to serve more than 11 years in prison and was ordered to pay \$17.3 million in restitution. The defendant submitted false and fabricated documents claiming that his businesses had numerous employees and hundreds of thousands of dollars in payroll expenses when, in fact, no business had employees or paid wages consistent with the amounts claimed in the PPP applications.

FDIC OIG Audits, Evaluations, and Reviews. Our audits, evaluations, and reviews provide qualitative benefits of improving the efficiency of the FDIC and the integrity of the banking sector. Our audits, evaluations, and reviews span a broad spectrum of

FDIC activities, and since FY 2020 have resulted in more than 200 recommendations for improvements to the programs and activities of the FDIC, including in the following areas:

- Enterprise Risk Management
- Anti-Sexual Harassment
- Readiness for Crises
- Contract Oversight
- Personnel Security and Suitability
- Termination of Bank Secrecy Act/Anti-Money Laundering Consent Orders
- Whistleblower Rights and Protections
- Sharing of Threat Information to Guide Supervision
- Supply Chain Risk Management

Our work has directly led to significant improvements and efficiencies at the FDIC. For example, the FDIC created an entirely new section on Emergency Preparedness and Readiness; hired an Assistant Director to oversee Emergency Preparedness; revamped its entire Personnel Security processes for background investigations; revised its Risk Appetite and Standard Operating Procedures for its Enterprise Risk Management program; and issued rules (along with other banking regulators) requiring banks to report ransomware attacks and other significant cyber incidents.

In addition, we provided our assessment of the Top Management and Performance Challenges facing the FDIC. We identified nine Top Challenges facing the FDIC:

1. The FDIC's Readiness for Crises;
2. Cybersecurity for Banks and Third-Party Service Providers;
3. Supporting Underserved Communities in Banking;
4. Organizational Governance at the FDIC;
5. Information Technology Security at the FDIC;
6. Security and Privacy at the FDIC;
7. The FDIC's Collection, Analysis, and Use of Data;
8. Contracting and Supply Chain Management at the FDIC; and
9. Human Resources at the FDIC.

We believe that our researched and deliberative analysis is beneficial, informative, and constructive for policy makers, including the FDIC and Congressional oversight bodies, and the American people. We currently have 12 ongoing audits, evaluations, and reviews on topics including examinations of Government Guaranteed Loans; security controls over the FDIC's wireless networks; security controls over the Windows Active

Directory; and implementation of the Information Technology Risk Examination (InTREx) program.

FDIC OIG Contributions to the IG and Law Enforcement Communities. The FDIC OIG contributes greatly to the oversight community through its active participation in the Council of the Inspectors General on Integrity and Efficiency (CIGIE). For example, The FDIC IG serves as Vice Chair of the CIGIE Legislation Committee, which engages with Congress to ensure the independence of IGs and effective oversight of all Federal programs and spending. The FDIC OIG is also leading a Legislation Committee project to propose revisions to statutorily-mandated OIG audits so that any mandates are tailored to the highest risks.

Additionally, the OIG has been active and involved in the creation of CIGIE's newly created Diversity, Equity, Inclusion, and Accessibility Work Group, and the FDIC IG is its Vice Chair. The DEI&A Work Group looks to highlight the IG community's outstanding oversight work on matters involving diversity, equity, inclusion, and accessibility and works to identify ways to continue and strengthen these efforts. In addition, the FDIC is an active member of other CIGIE committees such as Audit, Evaluations and Inspections, Investigations, and Technology.

As part of the Coronavirus Stimulus Bill, the IG community has come together to form the Pandemic Response Accountability Committee (PRAC). IG Lerner, along with other IGs, is serving on the PRAC, which conducts and coordinates oversight of covered funds and the Coronavirus response, and supports other Inspectors General in order to: detect and prevent fraud, waste, abuse, and mismanagement; and identify major risks that cut across programs and agency boundaries. The OIG has furthered these efforts through our support to:

- PRAC Pandemic Analytics Center of Excellence (PACE) - Provides a leading-edge analytic platform with the capacity and scale to help oversee more than \$5 trillion in pandemic-related emergency spending. The PACE delivers analytic, audit, and investigation support to the oversight community as it roots out historic levels of fraud, waste, and abuse in pandemic relief programs to ensure funds are used for their intended purpose.
- PRAC Fraud Task Force - Serves as a coordination tool to assist OIGs in the investigation of pandemic fraud; to serve as a coordinating body with Department of Justice prosecutors, the Federal Bureau of Investigation, and other Federal law enforcement agencies; and to enable OIGs to tap into criminal investigators and analysts from across the OIG community to help handle pandemic fraud cases.

In May 2021, the Attorney General announced the establishment a COVID-19 Fraud Enforcement Task Force (CFETF). The FDIC OIG supports this effort as a key interagency partner for the Department of Justice (DOJ). Our Office is contributing to

the CFETF efforts in: (1) identifying cross-governmental resources, investigative techniques, and information for uncovering fraud schemes and the actors who perpetrate them; (2) harnessing what we have learned about COVID-19-related and other types of fraud from past efforts; and (3) deterring, detecting, and disrupting future frauds. This effort augments and incorporates existing coordination mechanisms between the OIG and DOJ, and we will continue to work in close coordination with related efforts underway throughout the Federal government.

The FDIC OIG is currently co-leading a project to develop guidance on crisis readiness for the Financial Stability Oversight Council (FSOC) and its member agencies. In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created the Council of Inspectors General on Financial Oversight (CIGFO) to provide oversight of FSOC. CIGFO members include nine IGs with oversight authority for the Federal member agencies of FSOC. The purpose of this guidance is to compile information and activities that agencies and OIGs identified as integral to pre-crisis planning and crisis management so that FSOC and its member agencies can evaluate its existing efforts and initiate new ones, as needed, consistent with each organization's mission.

PROPOSED FISCAL YEAR 2023 BUDGET

For FY 2023, the OIG's proposed budget is \$47.5 million, approximately 2 percent above the FY 2022 enacted appropriation. This amount will allow the OIG to build on FY 2022 baseline and staffing structure investments and continue the OIG's capacity to conduct statutorily-mandated reviews of failed banks.

Current Baseline

As in previous years, the FDIC OIG budget is largely driven by personnel and benefits costs, which constitute approximately 83 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 banking sector.

We project that we will maintain a full staffing level of 144 Full-Time Equivalent (FTE) during FY 2023. Importantly, approximately 65 of the 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. The baseline also includes expenses for recurring non-personnel categories such as travel, purchases and leases of equipment and supplies, and subscriptions and licenses for research and IT resources. The request

also includes sufficient funding for OIG employee training and contributions to the Council of the Inspectors General on Integrity and Efficiency.

As discussed below, a portion of the FY 2023 request includes investments in personnel, hardware, and software focused on the areas of data analytics and IT infrastructure to include cybersecurity. The proposed budget also maintains funding for contract support, as needed, to conduct statutorily-mandated reviews of failed banks.

Priority Investments

Data Analytics and IT Infrastructure

In FY 2023, the OIG proposes an increase of three personnel uniquely skilled in IT and data analytics. These staff will build on existing skillsets to further the OIG's internal efforts for dash boarding, operational analytics, and performance reporting, as well as external data analytics supporting the teams conducting audits, evaluations, and reviews. The new staff will be responsible for data needs, obtaining access to systems and the FDIC's Enterprise Data Warehouse, and automating data analysis. They will also conduct their own reviews using special IT tools related to detecting vulnerabilities in the FDIC's IT environment. The increased use of data analytics will promote efficiency in the OIG, thereby allowing the OIG to focus its resources on the critical oversight areas, such as large-scale fraud schemes, systemic weaknesses at the agency, and cyber security threats.

Material Loss Reviews

If a bank fails and causes 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.

Due to current economic uncertainties surrounding the pandemic, we have planned for up to four MLRs in FY 2023 and plan to put a contingency contract in place for \$1.2 million (\$300,000 per failed bank). This funding would only be expended if failures occur and we have to do the work, but having a contract in place and funding available would allow us to begin the work quickly, if necessary, and meet the 6-month statutory deadline. This level of preparedness is necessary given uncertainty in the banking sector.

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 2023, 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.

Full funding of the OIG request will enable us to make investments in data analytics and IT infrastructure that will have long-term benefit to the efficiency of the OIG and FDIC, as well as provide the OIG with the ability to rapidly respond to any changes in economic conditions and the stability of the banking sector.

Our work in FY 2023 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.

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

Object Classification	FY 2021 Actual	CY 2022 Budget*	FY 2022 Enacted	FY 2023 PB Request
11.1 Full-Time Equivalent	\$22,982	\$23,851	\$25,145	\$26,198
11.5 Other Personnel Compensation	\$1,166	\$1,172	\$1,191	\$1,200
11.9 Total Personnel Compensation	\$24,148	\$25,023	\$26,336	\$27,398
12.1 Civilian Personnel Benefits	\$12,034	\$12,656	\$12,765	\$14,108
21.0 Travel and Transportation of Persons	\$614	\$944	\$1,447	\$1,480
22.0 Transportation of Things	\$14	\$14	\$14	\$14
25.0 Other Services	\$2,217	\$2,192	\$4,285	\$2,323
26.0 Supplies and Materials	\$24	\$15	\$15	\$25
31.0 Equipment	\$3,678	\$2,156	\$1,638	\$2,152
Total	\$42,729	\$43,000	\$46,500	\$47,500
Full-Time Equivalent	129	135	144	144

*Current Year (CY) 2022 reflects the annualized Continuing Resolution (CR) level.