Office of Inspector General

Statement

For the Subcommittee on the Departments of Transportation, Treasury, and HUD, The Judiciary, District of Columbia, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives

Office of Inspector General
Fiscal Year 2006
Appropriation Request

Statement of Patricia M. Black
Acting Inspector General

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Mr. Chairman and Members of the Subcommittee:

I am pleased to present the fiscal year 2006 budget request totaling $29.9 million for the Office of Inspector General (OIG) at the Federal Deposit Insurance Corporation (FDIC). This OIG budget reflects a decrease for the tenth consecutive year, after adjusting for inflation. This budget has been possible because of the improved health of the banking industry since the early 1990s, the major staff downsizing at the FDIC and within the OIG, and our internal efforts to improve our performance and productivity even with reduced budgets.

As you know, the FDIC was established by the Congress in 1933, during the Great Depression, to maintain stability and public confidence in the nation’s banking system. Our nation has weathered several economic downturns since that era without the severe panic and loss of life savings unfortunately experienced in those times. The federal deposit insurance offered by the FDIC is designed to protect depositors from losses due to failures of insured commercial banks and thrifts. The FDIC insures individual deposits of up to $100,000. As of December 31, 2004, the FDIC insured $3.623 trillion in deposits for 8,988 institutions, of which the FDIC supervised 5,263. The FDIC also promotes the safety and soundness of these institutions by identifying, monitoring, and addressing risks to which they are exposed.

The Corporation reports that financial institutions have recently had record earnings. The rate of bank and thrift failures has remained at a relatively low level over the past 10 years, and the Corporation has substantially reduced its estimates of future losses from failures. Assets held in receiverships following bank failures are at comparatively low levels, and significant progress has been made in closing older receiverships. The insurance funds are now comfortably above the designated reserve ratio that could otherwise trigger increases in premiums assessed on insured depository institutions. These are important indicators of a healthy banking system, and the Corporation can take pride in its positive contributions in each of these areas.

The FDIC OIG was established in 1989 in accordance with amendments added to the Inspector General Act. The OIG’s program of independent audits, investigations, and other reviews assists and augments the FDIC’s mission. Our efforts promote economy, efficiency, and effectiveness of FDIC programs and operations and protect against fraud, waste, and abuse.

In December 2004, Gaston L. Gianni, Jr. retired after serving for over 8 years as the FDIC Inspector General. Since then, I have been the Acting FDIC Inspector General and will continue to dedicate myself to carrying out the mission of the OIG until the President appoints an Inspector General. In this capacity, I look forward to supporting the Congress, the FDIC Chairman, and other corporate management in meeting current and future challenges facing the FDIC and the banking industry.

This statement discusses OIG accomplishments during fiscal year 2004, our contributions to assist FDIC management, internal initiatives to improve the OIG, and management and performance challenges facing the FDIC. I am also providing additional details about our fiscal year 2006 budget and how it will be spent.
A Review of the FDIC OIG’s Fiscal Year 2004 Accomplishments

The OIG’s fiscal year 2004 achievements include the following:

- $95.8 million in actual and potential monetary benefits
- 137 non-monetary recommendations to FDIC management
- 32 referrals to the Department of Justice
- 24 indictments
- 24 convictions
- 4 employee/disciplinary actions

More specifically, our accomplishments included 56 completed investigations that led to the above indictments and convictions as well as fines, court-ordered restitution, and recoveries that constitute slightly over $40 million from our work. Also, we issued a total of 48 audit and evaluation reports, which included about $4.4 million in questioned costs and $51.1 million in recommendations that funds be put to better use. The nonmonetary recommendations in these reports aim to improve the internal controls and operational effectiveness in diverse aspects of the Corporation’s operations, including automated systems, contracting, bank supervision, financial management, and asset disposition.

Further, the OIG accomplished many of its organizational goals during the fiscal year as outlined in our annual performance plan. Our 2004 Performance Report shows that we met or substantially met 31 of our 41 goals, or 76 percent. In a measurable way, this achievement shows the progress we continue to make in adding value to the Corporation with our audits, investigations, and evaluations in terms of impact, quality, productivity, and timeliness.

Audits, Investigations, and Evaluations

Examples of the OIG’s audit, investigation, and evaluation work that contributed to these accomplishments follow.

Investigation into Fraud at Hamilton Bancorp and Hamilton Bank, N.A. (Hamilton Bank)

In 2004, a federal grand jury in Miami, Florida, returned a 42-count indictment for conspiracy, wire fraud, securities fraud, false filings with the Securities and Exchange Commission, false statements to accountants, obstruction of an examination of a financial institution, and making false statements to the Office of the Comptroller of the Currency (OCC). Named in the indictment were three former senior executive officers of Hamilton Bancorp and Hamilton Bank, N.A. and the former Managing Director, Deutsche Morgan Grenfell, and advisor to the Hamilton Bancorp Board of Directors. The indictment alleges that, in 1998 and 1999, the defendants fraudulently inflated the reported results of operations and financial condition of Hamilton Bancorp and defrauded the investing public and the bank and securities regulators, so that the accused would unjustly enrich and benefit themselves through higher salaries, bonuses, and stock options, and would facilitate an upcoming registered securities offering to the investing public.

In February 2005, the former President of Hamilton Bank pleaded guilty of two counts of securities fraud and could get 10 years for each count, a maximum fine of $1 million, and restitution. The three other defendants are scheduled for trial on June 27, 2005. This case is
being investigated by the FDIC OIG and prosecuted by the U.S. Attorney’s Office for the Southern District of Florida.

**Investigation into the Failure of Sinclair National Bank**

In August 2004, a federal jury returned guilty verdicts against a former owner who was also a board member of Sinclair National Bank and the former Chief Executive Officer of Stevens Financial Group. The jury found the former owner guilty of conspiracy to submit a false statement and making a false statement to the OCC during her application for the purchase of a predecessor bank. On September 7, 2001, after only 18 months under new ownership, the OCC closed the bank, and the FDIC was named receiver. Sinclair’s failure caused a loss of approximately $4.5 million to the Bank Insurance Fund. The former owner was sentenced to 2 years’ probation, fined $5,000, and ordered to surrender her passport.

The former Chief Executive Officer of Stevens Financial Group was found guilty of conspiring to commit bank fraud. Through his company, he sold over $15 million in sub-prime loans to Sinclair National Bank. He was found guilty of conspiracy to defraud Sinclair in the purchase of these sub-prime loans and making false and misleading statements to the Missouri Division of Securities. The Chief Executive Officer was sentenced to 5 years in prison and ordered to pay $4.2 million in restitution.

In November 2004, the former in-house counsel for Sinclair National Bank and Stevens Financial Group was sentenced both in state and federal court to 5 years’ probation and was ordered to surrender his law license.

The federal case was investigated by the FDIC OIG, Treasury OIG, FBI, and the Missouri Attorney General’s Office. The case was prosecuted by the U.S. Department of Justice, Washington, D.C.

**Audits of FDIC’s Allocation of Records Storage Costs and Records Management and Storage**

The OIG issued two reports dealing with records management and storage costs that resulted in $51.1 million in funds put to better use. The audit of the FDIC’s allocation of records storage costs determined that records storage costs were not correctly charged to the appropriate insurance and resolution funds.

In another audit, we concluded that the FDIC’s contract with Iron Mountain Records Management, Inc. for records storage could be more cost-effective. We reported that the FDIC could avoid costs of $5.1 to $5.5 million by moving records from climate-controlled storage, renegotiating certain contract terms, and obtaining permission to destroy thrift records not associated with goodwill litigation. We made recommendations to the FDIC to make the contract with Iron Mountain more cost effective and to improve contract oversight. We also recommended that the General Counsel and Division of Administration expedite efforts related to the destruction of records for thrifts not involved in the goodwill litigation.
Audit Report on Observations from FDIC OIG Material Loss Reviews Conducted 1993 through 2003

In January 2004, we issued an audit report that discussed the recurring and root causes of failure for the 10 FDIC-supervised institutions that caused material losses to the Bank Insurance Fund (BIF) during the past 10 years. Estimated losses to the BIF from these 10 failures total over $584 million. We concluded that the major causes of failure were inadequate corporate governance, poor risk management, and lack of risk diversification.

Our semiannual reports to the Congress provide many other examples of OIG accomplishments. These reports can be found on our Web page at http://fdicig.gov/reports.shtml or by contacting our office.

Assistance to FDIC Management

In addition to 2004 audits, investigations, and evaluations, the OIG made contributions to the FDIC in several other ways. We strive to work in partnership with Corporation management to share our expertise and perspective in certain areas where management is seeking to make improvements. Among these contributions were the following activities:

- Reviewed 43 proposed corporate policies and 3 draft regulations and offered comments and suggestions when appropriate.
- Participated in division-level conferences and meetings to communicate about our audit and investigation work and processes.
- Provided technical assistance and advice to several FDIC groups working on information technology issues, including participating at the FDIC’s information technology security meetings. We also participated in an advisory capacity on the Information Technology Subcommittee of the Audit Committee.
- Coordinated with the FDIC’s Division of Information Technology and agency officials to establish appropriate processes in addressing cyber crimes.

OIG Management and Operational Initiatives

An important part of our stewardship over the funding we receive includes our continuous efforts to improve OIG operations.

The OIG has continued to downsize with the Corporation. In this environment, the OIG has had to emphasize aligning our human resources to achieve the OIG mission. The OIG will carry out several key initiatives to implement our human capital strategic plan and ensure that the OIG is a results-oriented high-performance organization. Many of the planned initiatives relate to staff development and include: creating a mentoring program; providing training and development related to the OIG core competencies and business knowledge needs; and creating a strategy to improve the supervisor-staff feedback process.
During the past year, the OIG published its first comprehensive Employee Survey Report. The survey collected information on how employees who work for the OIG view and appraise their work and workplace. The survey was designed to provide information comparable to certain major benchmark surveys of other government employees.

Other internal initiatives include our hosting an interagency symposium on the Federal Information Security Management Act (FISMA) of 2002. Representatives from more than 40 federal agencies attended the symposium to share information, ideas, and best practices related to the implementation of FISMA. We also co-sponsored a third Emerging Issues in Banking Symposium with the Offices of Inspector General of the Department of the Treasury and the Board of Governors of the Federal Reserve System, bringing together distinguished speakers who shared their perspectives on the banking and financial services community with Inspector General staff in the interest of enhancing the value that OIGs can add to their agencies by successfully addressing risk areas. We sponsored the annual conference of the Federal Audit Executive Council, a working group comprised of the heads of federal audit organizations. This forum helps ensure that federal audit organizations keep current with auditing standards, practices, priorities, and issues of concern. We also conducted our sixth external customer survey regarding satisfaction with OIG operations.

The OIG’s Office of Audits received an unqualified opinion on a peer review of the system of quality control for the audit function of the FDIC OIG. According to the Department of Energy OIG, the system of quality control for the audit function in effect for the year ended March 31, 2004, was designed in accordance with quality standards established by the President’s Council on Integrity and Efficiency and provided the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of the FDIC OIG’s audits.

Management and Performance Challenges Facing the FDIC

In the spirit of the Reports Consolidation Act of 2000, the OIG annually identifies the top management and performance challenges facing the FDIC. We have worked with the FDIC to prepare our annual assessment. The challenges set forth below capture the risks and opportunities we see before the Corporation in the coming year or more. In addition, these challenges serve as a guide for our work.

1. Corporate Governance in Insured Depository Institutions

Corporate governance is generally defined as the fulfillment of the broad stewardship responsibilities entrusted to the Board of Directors, officers, and external and internal auditors of a corporation. A number of well-publicized announcements of business and accountability failings, including those of financial institutions, have raised questions about the credibility of management oversight and accounting practices in the United States. In certain cases, board members and senior management engaged in high-risk activities without proper risk management processes, did not maintain adequate loan policies and procedures, and circumvented or disregarded various laws and banking regulations. The FDIC’s effort to achieve sound corporate governance without undue regulatory burden remains a management challenge.

Several of our audits focused on issues relating to external governance. One audit focused on the process that the FDIC uses to assess bank management and controls during examinations of FDIC–supervised financial institutions. We concluded that the process is adequate. However, based on our
review of six open banks with high-risk composite ratings, we found opportunities for improvement pertaining to banks that have a dominant official with significant influence in bank operations. We made recommendations to address these concerns, and the corrective actions that FDIC management proposed were responsive. We also conducted an audit to examine the FDIC’s issuance of implementing guidelines to financial institutions and examiners for applicable provisions of the Sarbanes-Oxley Act. We concluded that the FDIC took adequate steps to issue implementing guidance for applicable provisions of the Act both to FDIC-supervised institutions and to FDIC examiners. In addition, the Act did not have a major impact on FDIC-supervised financial institutions because of pre-existing audit committee and internal control reporting requirements imposed by the FDIC Improvement Act of 1991.

Likewise, our investigative work also addresses corporate governance issues. In a number of cases, financial institution fraud is a principal contributing factor to an institution’s failure. Our Office of Investigations plays a critical role in investigating such cases and has been very successful in identifying bank fraud cases involving corporate governance weaknesses.

2. **Management and Analysis of Risks to the Insurance Funds**

A primary goal of the FDIC under its insurance program is to ensure that its deposit insurance funds do not require augmentation by the U.S. Treasury. Achieving this goal is a considerable challenge that requires effective communication and 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.

We completed an evaluation of the FDIC’s supervisory approach for examining limited-charter depository institutions, which include industrial loan companies. This evaluation was completed in September 2004 and contained eight recommendations for strengthening the quality of the Division of Supervision and Consumer Protection’s program for supervising industrial loan companies. In addition, we completed an audit of the Maximum Efficiency, Risk-focused, Institution Targeted (MERIT) Examination Program to assess the adequacy of processes, reports, and other data that the FDIC uses in monitoring MERIT examination coverage of financial institutions.

3. **Security Management**

The FDIC relies heavily upon automated information systems to collect, process, and store vast amounts of banking information. This information is used by financial regulators, academia, and the public to assess market and institution conditions, develop regulatory policy, and conduct research and analysis on important banking issues. Ensuring the confidentiality, integrity, and availability of this information in an environment of increasingly sophisticated security threats requires a strong, enterprise-wide information security program at the FDIC and insured depository institutions.

As a result of focused efforts over the past several years, the FDIC has made significant progress in improving its information security controls and practices and addressing current and emerging information security requirements mandated by FISMA. The OIG has completed its fourth annual security evaluation pursuant to FISMA and its predecessor legislation. Also, the FDIC’s external auditor, the Government Accountability Office, for the first time in several years did not cite information systems security as a reportable condition in its audit of the Corporation’s financial statements. However, the FDIC recognizes that continued improvements in its information security program and practices are needed. The *FDIC Annual Report 2004* identified information security as
a high vulnerability issue within the Corporation. The FDIC also identified improvements in its information security program as a major corporate priority in its 2004 Annual Performance Plan.

The OIG recently completed an audit of security controls over the FDIC’s e-mail infrastructure. In addition, we have completed one audit and a follow-up review of the Virtual Supervisory Information on the Net application. This is a major application that provides access to financial, examination, and supervisory information on financial institutions. FISMA 2005 work is ongoing.

4. Money Laundering and Terrorist Financing

In today’s global banking environment, where funds are transferred instantly and communication systems make services available internationally, a lapse at even a small financial institution outside of a major metropolitan area can have significant implications across the nation. The reality today is that all institutions are at risk of being used to facilitate criminal activities, including terrorist financing.

On June 3, 2004, the OIG testified before the Senate Committee on Banking, Housing, and Urban Affairs, on Bank Secrecy Act (BSA) compliance and enforcement. Also, in March 2005, we completed an audit that addressed the FDIC’s supervision of one institution’s compliance with the BSA. This audit determined that responsibilities to ensure compliance with the BSA were not adequately fulfilled by either institution management or the FDIC. Corporate governance at the financial institution and two former institutions was not sufficient to ensure that the institutions met BSA requirements. The FDIC’s examinations identified significant BSA violations and deficiencies, but the examinations generally lacked sufficient follow-up on corrective measures promised but not implemented by institution management. Consequently, weak BSA compliance programs persisted for extended periods. In addition, the FDIC should have more thoroughly considered the impact of BSA compliance violation and deficiency histories in connection with its decision to qualify the potential acquirers of a failed institution. The FDIC concurred with our findings and recommendations and is making significant improvements in its supervision of institution BSA compliance programs in response to our recommendations and its own initiatives.

The FDIC anti-money laundering supervision program is a matter for continued monitoring in the FDIC Annual Report 2004. The OIG has additional audits and investigations planned in this area to help ensure that financial institutions, through efficient and effective supervision by the FDIC, will remain vigilant in implementing BSA programs that assist in preventing money laundering and terrorism.

5. Protection of Consumer Interests

In addition to its mission of maintaining public confidence in the nation’s financial system, the FDIC also protects the interests of consumers through its oversight of a variety of statutory and regulatory requirements aimed at protecting consumers from unfair and unscrupulous banking practices. The FDIC is legislatively mandated to enforce various statutes and regulations regarding consumer protection and civil rights with respect to state-chartered, non-member banks and to encourage community investment initiatives by these institutions.

The OIG’s recent coverage in this area includes reviews of compliance with the Gramm-Leach-Bliley Act, Community Reinvestment Act, and the Fair Lending Act. In 2004, we examined the FDIC’s Supervision and Appeals Review Committee’s decision regarding a financial institution’s appeal of a fair lending violation. In addition, we have an ongoing audit on predatory lending.
The OIG’s involvement with consumer protection matters includes our investigative cases regarding misrepresentations of FDIC insurance or affiliation to unsuspecting consumers. Additionally, our Office of Investigations’ Electronic Crimes Team has been involved in investigating “phishing” identity theft schemes that have used the FDIC name in an attempt to obtain personal data from unsuspecting consumers who receive the e-mails. Our investigations have also uncovered multiple schemes to defraud depositors by offering them misleading rates of return on deposits. These abuses are effected through the misuse of the FDIC’s name, logo, abbreviation, or other indicators suggesting that the products are fully insured deposits. Our experience with such cases prompted us to submit a legislative proposal to prevent misuse of the Corporation’s guarantee of insurance. This proposal was incorporated in H.R. 1375: Financial Services Regulatory Relief Act of 2003. On March 24, 2004, it was passed by the House of Representatives and referred to the U.S. Senate.

6. **Corporate Governance in the FDIC**

Corporate governance within the FDIC is the responsibility of the Board of Directors, officers, and operating managers in fulfilling the Corporation’s broad mission functions. It also provides the structure for setting goals and objectives, the means to attaining those goals and objectives, and ways of monitoring performance. Management of the FDIC’s corporate resources is essential for efficiently achieving the FDIC’s program goals and objectives.

- **Management of Human Capital**

  The FDIC, like other organizations, continues to be affected by changing technology, market conditions, initiatives designed to improve its business processes, an aging workforce, and the changing financial environment. Such events impact needed staffing levels and required skills going forward. Workforce management is a matter for continued monitoring in the *FDIC Annual Report 2004*. Recent OIG work in this area includes an evaluation of the effectiveness of the FDIC’s Division of Supervision and Consumer Protection workforce planning and an evaluation of the FDIC Corporate University.

- **Competitive Sourcing**

  The FDIC has awarded long-term contracts to consolidate outsourced information technology activities. While these contracts permitted the FDIC to solicit among well-qualified sources under task orders, the FDIC’s ability to compete was generally limited to a small number of firms. We recently completed a pre-award audit of these consolidated contracts. We have ongoing work to determine whether the FDIC achieves adequate price competition and complies with the Acquisition Policy Manual’s bid solicitation and evaluation requirements.

- **Improved Financial Management**

  The FDIC has begun to field a new financial management system in 2005 that will consolidate the operations of multiple systems. Named the New Financial Environment (NFE), this initiative will modernize the FDIC’s financial reporting capabilities and cost about $58 million. Implementing NFE and interfacing other systems with NFE will require significant efforts and poses major challenges. We have reported on several NFE matters in the past and are currently monitoring the Corporation’s ongoing NFE efforts. We plan to provide audit coverage of NFE implementation after the system is deployed.
• E-Government
The FDIC's E-Government Strategy is a component of the enterprise architecture that focuses on service delivery for the external customers of the FDIC. The FDIC issued Version One of its E-Government Strategy in November 2002 and established a task force to update the strategy. The FDIC has initiated a number of projects that will enable the Corporation to improve internal operations, communications, and service to members of the public, businesses, and other government offices. The projects include: Call Report Modernization, Virtual Supervisory Information on the Net, Asset Servicing Technology Enhancement Project, New Financial Environment, Corporate Human Resources Information System, and FDICConnect. We have an audit in process that will determine if the FDIC is adequately implementing E-Government principles in its operations and in its information exchange with insured financial institutions.

• Risk Management and Assessment of Corporate Performance
Within the business community, there is a heightened awareness of the need for a robust risk management program. Enterprise risk management is a process designed to: identify potential events that may affect the entity, manage identified risks, and provide reasonable assurance regarding how identified risks will affect the achievement of entity objectives. The migration from internal control to enterprise risk management perspectives and activities presents challenges and opportunities for the FDIC. We recently completed an audit on strategies for enhancing corporate governance and we have two evaluations planned that will assess the FDIC’s approach to enterprise risk management and the FDIC’s use of performance measures. We also provide input to the FDIC’s annual performance plans.

• Security of Critical Infrastructure
To effectively protect critical infrastructure, the FDIC’s challenge in this area is to implement measures to mitigate risks, plan for and manage emergencies through effective contingency and continuity planning, coordinate protective measures with other agencies, determine resource and organization requirements, and engage in education and awareness activities.

The OIG has performed several evaluations to assess the FDIC’s physical security program and information technology (IT) contingency planning. A follow-up to two prior OIG evaluations to assess the FDIC physical security program and implementation of physical security concluded that the FDIC had implemented our recommended improvements to security policies for FDIC-owned and leased space in the Washington, D.C. area and in the regional and field offices.

With respect to IT contingency planning, the FDIC has continued capability to recover its mainframe and server platforms necessary to restore operations in the event of a disaster. However, testing for data restoration is an area needing continuous attention. The FDIC’s Business Continuity Plan addresses critical business functions in key divisions and offices. The Corporation has updated its business impact analysis and updated the plan accordingly. Continued testing and updates of the plan must be part of a sound business continuity planning process. The OIG has further work planned in this area.
• **Management of Major Projects**

Project management involves defining, planning, scheduling, and controlling the tasks that must be completed to reach a goal and allocating resources to perform those tasks. The FDIC has engaged in several multi-million dollar projects, such as the New Financial Environment discussed earlier, Central Data Repository, and Virginia Square Phase II Construction.

We have done several reviews of these projects and identified the need for improved defining, planning, scheduling, and controlling of resources and tasks to reach goals and milestones. Project management is a matter for continued monitoring in the *FDIC Annual Report 2004*. Also, the Corporation included a project management initiative in its 2004 performance goals and established a Program Management Office to address the risks and challenges that these kinds of projects pose.

• **Cost Containment and Procurement Integrity**

As steward for the BIF, the Savings Association Insurance Fund (SAIF), and the FSLIC Resolution Fund (FRF), the FDIC strives to identify and implement measures to contain and reduce costs, either through more careful spending or by assessing and making changes in business processes to increase efficiency. A key challenge to containing costs relates to the contracting area.

The OIG has performed several audits and evaluations that have addressed procurement issues, all in the interest of enhancing the effectiveness of contracting and reducing costs of contracted goods and services. These audits and evaluations addressed local telecommunications, price reduction on laptop computers, procurement of administrative goods and services, and the FDIC’s use of consultants. These audits and evaluations resulted in questioned costs, funds put to better use, or cost savings for the Corporation.

7. **Resolution and Receivership Activities**

One of the FDIC’s primary responsibilities includes planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and efficient resolution of failed financial institutions. These activities maintain confidence and stability in our financial system. Three of our recent audit reports addressed resolution and receivership activities. These audits addressed internal loan servicing, receivership dividend payments, and asset write-offs and each made recommendations for improvement.

The OIG’s Office of Investigations coordinates closely with the FDIC’s Division of Resolutions and Receiverships and with the Legal Division regarding ongoing investigations involving fraud at failed institutions, fraud by FDIC debtors, and fraud in the sale or management of FDIC assets. In particular, investigators address issues arising in connection with the prosecution of individuals who have illegally concealed assets in an attempt to avoid payment of criminal restitution to the FDIC. As of September 30, 2004, the FDIC was owed approximately $1.7 billion in criminal restitution. In most cases, the individuals subject to restitution orders do not have the means to pay. We focus our investigations on those who do have the means to pay but hide their assets from and/or lie about their ability to pay.
The OIG’s Fiscal Year 2006 Budget Request

The proposed fiscal year 2006 OIG budget includes funding in the amount of $29,965,000 or $160,000 less than fiscal year 2005. This budget will support an authorized staffing level of 160. Since this budget is less than the fiscal year 2005 budget and will fund the same staffing level, the budget absorbs higher projected expenses for salaries, employee benefits, and other costs that will increase by reducing funds for travel, contracts, and equipment purchases. The graph below shows the OIG’s budget history from fiscal year 2003 through fiscal year 2006.

The FDIC OIG has been operating under an appropriated budget since fiscal year 1998 in accordance with Section 1105(a) of Title 31, United States Code, which provides for “a separate appropriation account for appropriations for each Office of Inspector General of an establishment defined under Section 11(2) of the Inspector General Act of 1978.” This funding approach is part of the statutory protection of the OIG’s independence. The FDIC OIG is the only appropriated entity in the FDIC. The OIG’s appropriation would be derived from the BIF, SAIF, and FRF. These funds are the ones used to pay for other FDIC operating expenses.

Budget by Strategic Goals and Major Spending Categories

For fiscal year 2006, the OIG developed the budget based on the four strategic goals outlined in our Strategic Plan found on our Web page at http://fdicig.gov/gptra/StratFY04-08.pdf. The four strategic goals, along with their associated percent of budget dollars follow:
The following chart shows the distribution of the OIG’s budget by major spending categories. Mostly, the OIG budget is comprised of salaries and benefits for its employees and the necessary funding for travel and training expenses.

As I discussed earlier, the OIG has continued to downsize during the last few years. The OIG has decreased its authorized level of 190 staff for fiscal year 2003 to 160 for fiscal year 2006 – about a 16-percent reduction. Years 2005 and 2006 are critical periods of change for the FDIC, and the OIG resources will be needed to ensure an efficient and effective rollout. However, OIG resource requirements may realize benefits from the FDIC’s restructuring and downsizing, which could mean fewer OIG staff and smaller budgets, and we will be reviewing that issue.

**Concluding Remarks**

Mr. Chairman and Members of the Subcommittee, I appreciate the support and resources we have received through the collaboration of the President, the Congress, and the FDIC. As a result, the OIG has been able to make a real difference in FDIC operations in terms of financial benefits and improvements, and by strengthening our own operations and efficiency. I look forward to working with this Subcommittee beginning with this budget. Like many governmental organizations, we are faced with downsizing and succession planning challenges for which the OIG will assess whether further downsizing may be necessary. We seek your support so that we will be able to effectively and efficiently conduct our work on behalf of the Congress, the FDIC Chairman, and the American public.