



FDIC Office of Inspector General
Semiannual Report
to the Congress
October 1 1998 thru March 31 1999

10th
Anniversary



A
Anniversary
Message

The Federal Deposit Insurance Corporation Office of Inspector General appreciates the efforts and support of all those who have contributed to its success over the past 10 years. As the office prepares for the next millennium, five core values will continue to guide its work:

Quality

Independence

Respect

Effectiveness

Integrity

Office of Inspector General

Semiannual Report to the Congress

October 1**998** thru March31**999**

F e d e r a l D e p o s i t I n s u r a n c e C o r p o r a t i o n

Inspector General's Statement

*Gaston L. Gianni, Jr.
Inspector General*

In our last semiannual report, I acknowledged the 20th anniversary of the passage of the Inspector General (IG) Act. On April 17, 1999, our office marked another milestone—the 10th anniversary of the Board of Directors' establishment of the FDIC Office of Inspector General (OIG). Both of these occasions have provided us an opportunity to reflect on the past and our evolution as an organization. However, as is true of the Corporation, the most important focus of our office is on the future.

At a time when society as a whole is anxiously anticipating the arrival of Year 2000, the Corporation is aggressively addressing the risks associated with the uncompromising deadline of January 1, 2000. In a speech to all FDIC employees on February 4, 1999, Chairman Tanoue spoke of Year 2000 as the number one safety and soundness priority. She also discussed two other corporate priorities: understanding the rapidly changing financial services environment and promoting diversity in the workplace. The OIG has conducted its work over the past 6 months with a view toward these and other related corporate issues, as discussed in detail in this report. As part of our most significant work during the reporting period, we have been proactively involved in the Corporation's Year 2000 activities—both those involving the institutions that the FDIC supervises and its own internal systems. We issued several memorandums and passed along best practices suggestions to the Division of Supervision (DOS) during the reporting period. Our principal goal is to assist the Corporation in successfully handling the imminent century date change.

In connection with the priority of understanding the rapidly changing

financial services industry, we also issued a Material Loss Review of the Failure of BestBank, Colorado, during the reporting period. The OIG attributed BestBank's failure to losses in a risky sub-prime credit card lending program. We made recommendations in this "lessons learned" report to strengthen supervisory practices and prevent recurrences of the types of problems that led to losses now totaling more than \$170 million. The Corporation either agreed with or agreed to take alternative action that meets the intent of 10 of the 11 recommendations we made. We recommended that the Corporation implement a policy where examiners take prompt action to address allegations of potential wrongdoing in open banks, including referrals of such allegations to the regional director, regional counsel, and, in certain circumstances, the OIG. DOS management does not agree with that portion of our recommendation concerning referring allegations to the OIG. It believes that if there is a regulatory problem, DOS and the Legal Division can handle it; if it is a criminal problem, the Federal Bureau of Investigation is set up to handle it. Further, DOS's view is that investigations of alleged wrongdoing by open banks, in most instances, is a program responsibility of DOS, not the OIG.

We disagree and believe that under the IG Act, the OIG has responsibility for investigating certain matters, including possible criminal obstruction of an FDIC examination. Under the Act, I am required to report that disagreement to the Congress in this semiannual report. We have been meeting with management and will continue to work with them to resolve this disagreement.

As for the third corporate priority of promoting diversity, we fully support the Corporation's diversity definition and related initiatives. We have also conducted our own study of diversity within the OIG and will soon be issuing a report to the House Subcommittee on Veterans' Affairs, Housing and Urban Development, and Independent Agencies, Committee on Appropriations. This study was done in response to language contained in the Subcommittee's report on the fiscal year 1999 appropriation.

In addition to focusing on these priorities, our office is looking inward and closely examining the way we conduct our work. Throughout this process we are seeking to be true to the mission of an independent OIG, as articulated 20 years ago in the IG Act; at the same time we are constantly looking ahead for opportunities to learn, improve, and maximize our value to the Corporation. We have administered a client survey to obtain feedback from FDIC senior management and are currently considering that input to be able to thoughtfully respond to it. Our own senior management team has been engaged in an in-depth review of our work processes and products. In the spirit of the Government Performance and Results Act, we have also evaluated our success in meeting our 1998 performance goals and have devised a new Strategic Plan and related performance and operating goals for the future. I am confident that as we move forward, all of these efforts will serve us and, more importantly, the Corporation very well.

Given the corporate priorities and corresponding challenges facing the FDIC, strong and sustained leader-

ship is essential. The Chairman had just taken office as of the date of our last semiannual report. She has been dedicated in her pursuit of the corporate mission and especially vigilant regarding Year 2000 efforts. She supports the work of my office, commenting in recent testimony on Year 2000 that our oversight "is an important part of the FDIC's quality assurance of its Year 2000 effort, and we welcome the views and suggestions for improvement that the OIG has provided." The Chairman has also endorsed our authority to establish an independent personnel function in the OIG and we are making progress to that end, having recently hired a Deputy Assistant Inspector General for Human Resources. We appreciate the Chairman's support and will continue to work cooperatively with her.

Since taking office, the Chairman has designated Vice Chairman Hove as the person that I report to directly. Vice Chairman Hove also serves as head of the FDIC Audit Committee and, along with the Chairman, serves on the FDIC Board of Directors. Five members comprise the FDIC's Board of Directors: the FDIC Chairman, the Vice Chairman, a third appointed member, the Director of the Office of Thrift Supervision, and the Comptroller of the Currency. The Board has operated with only four members since the departure of former Director Joseph Neely (the third appointed member) in September 1998. I am concerned about a potential internal leadership void that may manifest itself later if action is not taken to address this issue. Specifically, the terms of office as directors of both Chairman Tanoue and Vice Chairman Hove will expire in October 2000, although the Federal Deposit Insurance Act per-

mits them to continue to serve until their successors have been appointed and qualified. The term of office as director left vacant by Mr. Neely will expire approximately 15 months later. It is critical that this vacancy be filled as soon as possible to allow for an ample learning period, ensure continuity, and maintain needed historical perspective in the event the Chairman and Vice Chairman leave office upon the expiration of their terms. I understand that a name has been submitted for the President's consideration. I am hopeful that an appointment will be made soon so that a full complement of board members can deliberate significant issues and make critical decisions in the best interest of the FDIC. A board operating at full strength is vital to the Corporation.

In closing, I wish to acknowledge two departures on my own senior management staff during the reporting period. Patrick Noble, Assistant Inspector General for Investigations, and Lew Sherman, Deputy Assistant Inspector General for Investigations, retired from the FDIC after more than 27 and 22 years of service, respectively. I am grateful for the contributions these individuals made to the success of our office. We have recently hired Samuel Holland to serve as Assistant Inspector General for Investigations. We welcome him to the OIG and look forward to the positive impact he will have on our team as we confront the challenges ahead.



April 30, 1999

Major Issues

The Major Issues section of our report focuses on the challenges the FDIC faces as it works to accomplish its mission. The Corporation must address ever-present risks to the insurance funds, including the upcoming century date change, while supervising the financial institutions it regulates and protecting consumers' rights. The FDIC must also be mindful of lessons it can learn from major bank failures, as we discuss in our Special Feature on the failure of BestBank. With respect to managing and liquidating assets, the Corporation must always seek to maximize recoveries and be particularly vigilant regarding programs where large sums of money are at stake and the FDIC does not

the FDIC's many contracting activities are also essential to the Corporation's success.

Major downsizing over the past 4 years and natural attrition have greatly impacted the FDIC workplace. The loss of human resources has resulted in corresponding losses of leadership and, in some cases, expertise and historical knowledge. The Corporation is also challenged by the changing composition of its workforce, which is becoming increasingly diverse. The FDIC must ensure that its corporate diversity plan is fully carried out and foster an environment that engenders the Corporation's definition of diversity. Finally, under the provisions of the Government Performance and Results Act, for all of these major issues, the Corporation must establish goals, measure performance, and report on accomplishments.

Our Major Issues section also discusses the OIG's work to help the Corporation achieve success in carrying out its programs and operations. There are multiple examples of our

Major
Issues

Investigations

OIG
Organization

control the entire management and disposition process. In conducting its information technology activities in 1999, the Corporation needs to follow sound system development life cycle procedures, carefully budget and track costs and performance, and ensure adequate system security. Strong controls over

cooperative efforts with the Audit Committee, FDIC management, and colleagues at the U.S. General Accounting Office, the Federal Financial Institutions Executive Council, and other Offices of Inspector General as we work with them to maximize our contribution to the FDIC. (See pages 8 to 29.)

Investigations

The operations and activities of the OIG's Office of Investigations are described beginning on [page 30](#) of this report. As detailed in the Investigations section, the Office of Investigations' work this period led to fines, restitution, and monetary recoveries totaling over \$3.7 million. Cases leading to those results included investigations of fraud by contractors, concealment of assets by FDIC debtors, and fraud against open and closed financial institutions. Some of the investigations described reflect work we

have undertaken in partnership with other law enforcement agencies and with the cooperation and assistance of the FDIC's Division of Resolutions and Receiverships. To ensure continued success, the OIG continues to work collaboratively on a number of task forces and working groups.

OIG Organization

As the FDIC OIG nears its 10th anniversary, its mission remains constant: promoting the economy, efficiency, and effectiveness of FDIC programs and operations and protecting against fraud, waste, and abuse. In so doing, the OIG seeks to assist and augment the FDIC's contribution to the stability of and public confidence in the nation's financial system. The OIG Organization section of our report briefly discusses the evolving role of our organizational components in achieving that mission and visually depicts some of the statistical results of our work over the past five reporting periods. This section references some of the advisory assistance we have provided to management during the reporting period, including our participation on the Corporation's Business Continuity Working Group and meetings of the FDIC Diversity Steering Committee. This part of our report also captures some of our most significant internal initia-

tives this period, including our efforts to become a "learning organization," our administration of internal and external customer satisfaction surveys, our internal OIG diversity study, and our efforts to improve OIG audit and investigative information systems. (See [pages 38 to 45](#).)

Appendixes

We list the IG 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 46 to 59](#).)

Highlights

- The Office of Audits and Office of Congressional Relations and Evaluations issue a total of 33 reports with questioned costs of \$1.86 million and funds put to better use of \$150,000. Management disallows \$1.75 million of costs questioned.
- OIG reports include 133 non-monetary recommendations to improve corporate operations. Among these are recommendations to strengthen the risk-focused examination process; enhance oversight of contractors; revise corporate policy and guidance; clarify performance reporting criteria; adhere to sound system development practices; maintain and update project cost-benefit information; and improve the integrity, security, and documentation of systems.
- OIG investigations result in 10 convictions; 9 indictments/informations; 4 arrests; and over \$3.7 million in total fines, restitution, and monetary recoveries.
- The OIG continues and expands partnering activities with FDIC management, the Office of Internal Control Management, the U.S. General Accounting Office, the President's Council on Integrity and Efficiency, the Federal Financial Institutions Examination Council, and the Department of Justice.
- OIG staff reviews 6 proposed federal regulations and 17 proposed FDIC policies and responds to 21 requests and appeals under the Freedom of Information Act and the Privacy Act.
- In keeping with Chairman Tanoue's acknowledgement that the OIG has the authority to make its own personnel decisions pursuant to the Inspector General Act, the OIG furthers its plan to establish an independent, full-service personnel function and establishes a position to lead that activity.
- The OIG continues efforts with Division of Resolutions and Receiverships staff to pursue court-ordered restitution. More than \$1.2 billion is owed to the FDIC. To date, about \$139 million has been recovered.
- The FDIC OIG serves as lead agency on the review of the Federal Financial Institutions Examination Council's training program.
- The OIG continues its major audit effort of corporate Year 2000 (Y2K) activities and issues memoranda and best practices suggestions to the Division of Supervision related to internal and external Y2K matters.
- OIG and U.S. General Accounting Office staffs continue their joint effort to audit the Corporation's financial statements, with the OIG playing a greater role.
- The OIG coordinates with management on a number of projects relating to the major issues facing the Corporation, including participating in the FDIC's Business Continuity Working Group, providing advice on contracting issues to the Acquisition and Corporate Services Branch, and consulting with management on Government Performance and Results Act-related issues.
- The OIG carries out significant internal initiatives, including the launch of the "learning organization" concept, completion of an external survey of client satisfaction, and implementation of the OIG Intranet web site.

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Under the IG Act, the FDIC OIG is charged with promoting the economy, efficiency, and effectiveness of FDIC programs and operations and protecting against instances of fraud, waste, and abuse that can threaten the Corporation's success. In that regard, the OIG has identified a number of major issues facing the Corporation. The results of our work over the past 6 months are presented in the context of these issues. The major issues are closely related to the Corporation's mission: to contribute to stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships. We have conducted our work over the past 6 months to address these major issues and to add value in full support of the corporate mission.

Addressing Risks to the Insurance Funds

As the FDIC Chairman emphasized in an address to all corporate employees on February 4, 1999,

the FDIC symbol displayed in the branches of banks across America provides peace of mind to the public. When despositors see this symbol, they know that their insured deposits are safe. For 66 years, the FDIC's mission has been to maintain stability in the nation's financial system and sustain the confidence of the public. Although the challenges to stability have changed through the years, the Corporation's goal has remained constant.

Y2K Remains Top Priority

Currently, the most immediate risk to the banking industry and the FDIC are those that may emerge due to the coming of Year 2000 (Y2K). The FDIC has identified Y2K as "the number one safety and soundness priority" and has worked diligently to address risks related to the century date change. According to the Chairman, most of the Y2K focus to date has been on necessary system fixes. The Chairman has publicly claimed that 97 percent of the banks are on track in making sure their computer systems are ready for the date

Addressing Risks to the Insurance Funds

Supervising Insured Institutions and Protecting Consumer Interests

Maximizing Returns from Failed Institutions



change. She has stated that the FDIC must also continue aggressive efforts in the areas of examination, supervision, and contingency planning. The Chairman's message to the public has been optimistic: "There is no safer place to keep your money than in a federally insured account at a bank or savings institution." As Y2K draws ever closer, the Corporation's greatest challenge is to ensure that this statement stands the test of time.

The OIG has focused its Y2K work both on the FDIC's Y2K supervisory efforts and on its activities related to the readiness of the Corporation's internal systems. During this reporting period we issued two memoranda to management addressing these areas.

In a real-time mode, we have been reviewing the FDIC's efforts to ensure Y2K readiness by the financial institutions it supervises. The Division of Supervision (DOS) primarily administers the FDIC's activities in this area with direction

assigned to banks as a result of DOS examinations are consistent, accurate, supported, and timely. During our review we discussed our results with DOS and provided an interim communication to advise DOS of our conclusions as of February 24, 1999. We pointed out several areas that warranted management attention.

DOS initially divided its Y2K supervisory efforts into two phases. Phase I focused on the institutions' awareness, assessment, and renovation efforts. Phase II focused on the validation, implementation, and contingency planning efforts at financial institutions. We reviewed 89 Phase II examinations of FDIC-supervised financial institutions and questioned the accuracy, completeness, and consistency of 14 of the 89 examinations. Our work focused on identifying systemic weaknesses that may impact DOS's Y2K efforts, and we offered suggestions to DOS to address possible systemic issues.

We suggested that enhanced

be improved by enhanced controls. Specifically, we noted that the reliability of data in DOS's Y2K tracking system could be enhanced by revising default rating settings in the system and by implementing an effective audit trail and reconciliation process for data entered into the system. Additionally, we suggested that the timely communication of examination results and having an effective process for tracking this information could assist the institutions in initiating timely and meaningful corrective action and promote meaningful examination follow-up.

In response to our memorandum, the FDIC incorporated a number of our suggestions into guidance for all regional directors with further distribution to examiners. These included our suggestions regarding an independent, documented review process for workpapers; elimination of the suggested 24-staff-hour target for completing Phase II examinations; confirmation that examination conclusions are fully developed and supported; enhanced rating criteria; and more

Managing Information Technology

from an inter-divisional Y2K Oversight Committee. The objectives of our review are to determine whether the policies and procedures developed by the FDIC and the Federal Financial Institutions Examination Council (FFIEC) will ensure that FDIC-supervised financial institutions have implemented a structured approach to becoming Y2K-compliant and that Y2K ratings

Ensuring Sound Controls and Oversight of Contracting Activities

guidance regarding the assignment of ratings, increased review of examination reports and working papers, and increased emphasis on examination thoroughness would improve the FDIC's assurance that its information regarding the status of supervised institutions was consistent and accurate.

We also communicated two other conditions that we believed could

Operating Effectively in a Changing Environment

timely communication of examination results. DOS is also working to address our concerns related to revising default rating settings, establishing audit trails, and implementing controls to track the timely issuance of transmittal letters.

Subsequent to our review, in a March 15, 1999 memorandum to the Chairman we stated that we

Establishing Goals and Measuring Results

believed, overall, that the Y2K supervisory program to date has been effective. We will continue to work closely with DOS as it enters Phase III of the Y2K readiness assessment process. During this phase, according to DOS policy, examiners should review financial institutions' ongoing responsibilities, which include vendor and service provider due diligence, business resumption contingency planning, customer awareness initiatives, liquidity assessment and planning, and credit risk analysis and monitoring. Examiners should also ensure that institutions continue to report regularly to their boards of directors on the status of Y2K readiness efforts.

Earlier in the reporting period, we issued a memorandum to FDIC management on the Corporation's internal efforts to ensure Y2K readiness. Our memorandum communicated the results of our review of the FDIC's development of contingency plans and related procedures. We suggested that the contingency plans for the FDIC's 39 mission-critical

documentation preparation, and development. Once these cost estimates were determined, management would more definitively know what it would cost to provide effective business continuity for critical services.

In response to the memorandum, the assistant director, Millennium Information Technology Strategies, returned many of the contingency plans to respective divisions and offices for correction based on the OIG's input. He requested that action be taken by January 31, 1999; however, due to the Y2K testing workload, the deadline for most divisions and offices was extended to March 31, 1999. We will continue to monitor the Corporation's progress.

Other Risks Require Vigilance

The Corporation cannot afford to limit its focus to Y2K. It must remain alert to emerging risks and adapt to a rapidly changing financial services marketplace. In terms of size, complexity, and sensitivity to the global marketplace, banks have changed greatly over the past

Banking activities related to cyberbanking, electronic cash, and other highly technical financial delivery systems also pose increasing risks that may impact the safety and soundness of the banking industry and, consequently, the deposit insurance funds.

Additionally, personal bankruptcies, syndicated lending, international investments, and credit card lending are areas where adverse trends could cause losses to the FDIC and banking industry. The Corporation must guard against these risks and at the same time continue to ensure that consumers have fair and equal access to financial services.

Another key consideration for the FDIC as insurer is to ensure that the risk-based premium system avoids an excess build-up of risk. The Chairman has urged FDIC staff to make sure the premium system reflects what the risk-focused supervisory process indicates. According to the Chairman, the Corporation will be looking to identify banks whose overall condition may be good but whose

applications needed to be revised to include dates by which the Corporation would develop and test procedures, train users, develop documentation, and deploy software. To ensure adequate information for management decision-making, we suggested that the plans should also include itemized cost estimates for contingency procedure development, testing, user training,

5 years. The Chairman has urged the employees of the FDIC to find better ways to understand increasingly large, complex institutions; the businesses they conduct; and the risks they pose. Two fundamental questions arise: (1) what companies should be covered by the FDIC's "safety net," and (2) how would the Corporation deal with a "megabank" that is in trouble or fails?

practices make them "outliers" with respect to underwriting, concentration of risk, or undisciplined growth. Once supervisors identify these banks, the supervisors need to be sure that the risk-based premium system reflects the additional risk these institutions pose to the rest of the industry.

OIG Efforts to Mitigate Risks Continue

In our last semiannual report, we noted two ongoing audits in the area of Addressing Risks to the Insurance Funds that we have subsequently completed during the current reporting period. These audits, discussed below, represent two of the OIG's most significant products this period.

BestBank Causes over \$170 Million Loss to Insurance Fund

We conducted a material loss review of the failure of BestBank, Boulder, Colorado, as required by law. Section 38(k) of the Federal Deposit Insurance (FDI) Act, effective July 1, 1993, requires the OIG to review the supervision of FDIC-supervised banks that cause a material loss (generally defined as over \$25 million) to a deposit insurance fund. In the case of BestBank, losses were originally estimated at \$28 million. In fact, losses in excess of \$170 million have been booked so far. We issued a report that assessed why the institution's problems caused a loss and made

Federal Reserve Board and the Conference of State Bank Supervisors, began implementing a new risk-focused examination process designed to target functions that pose the greatest risk exposure to the bank. Rather than following the traditional approach of reviewing a large sample of loans, this approach first requires the examiner to identify and test controls within the bank and then to modify the sample selection as appropriate. This targeted examination approach is intended to focus examination resources on the areas of greatest risk within a bank, thereby improving the effectiveness of the examination process without requiring increased resources.

During this reporting period, the OIG issued a report on the FDIC's implementation of the risk-focused examination process. We concluded that the risk-focused process was not being implemented by examiners as it was intended by (DOS) headquarters management. Examiners were unclear as to the goals and

nationwide feedback on DOS's progress in implementing the risk-focused examination process. As a result, we recommended that the director of DOS take the following actions:

- Develop and communicate the program's goals and objectives to examiners to convey management's specific expectations for the processes and outcomes of the risk-focused examination process.
- Clarify DOS's policy and instructions to examiners regarding adequate documentation of exam modules.
- Develop a supervisory review process.
- Provide a refresher course to all field examiners on the use of the software used to conduct the exams.
- Develop a comprehensive evaluation system that systematically monitors and assesses DOS's progress in achieving desired risk-focused goals and objectives and uses evaluation results to improve program processes and products.

recommendations to help prevent any such losses in the future. (See next page for Special Feature on BestBank.)

Risk-Focused Exam Process Not Implemented as Intended

A second report issued during the reporting period addressed the FDIC's risk-focused examination process. On October 1, 1997, the FDIC, in conjunction with the

objectives of the new approach, and risk-focused procedures were seldom being implemented as designed. Examiners were not using the automated software because they felt it was too cumbersome and was adding to the time and effort necessary to complete bank examinations. In addition, DOS management had not developed a systematic approach for measuring and obtaining

Throughout this review, we kept DOS apprised of our findings so it could have real-time feedback on the program's implementation. Approximately 2 months before the draft report was issued, we provided our preliminary observations to DOS management for discussion at a regional directors' conference. In his response to the draft report, the director of DOS agreed with the

BestBank Material Loss Review

In January 1999, 6 months after the closing of BestBank, Boulder, Colorado, we reported that the Division of Supervision's (DOS) oversight could have been more effective in controlling BestBank's undisciplined growth, concentration in unsecured subprime lending, and poor underwriting practices. DOS's supervisory oversight was severely hampered by bank management's actions and by the examiners' restricted access to the bank's third-party servicer, Century Financial Group (Century). In addition, DOS missed opportunities to take more timely and effective supervisory actions at critical junctures in the bank's history. BestBank's failure is attributable to a concentration of assets in a high-risk unsecured credit card travel program that sustained substantial losses. Century exercised significant control over the credit card program and applied \$20 credits in an apparent attempt to make delinquent accounts appear current.¹ DOS was not aggressive in pursuing access to records supporting Century's financial statements, which we believe could have identified problems in the bank's unsecured credit card program and diminished the loss to the Bank Insurance Fund (BIF). As of December 31, 1998, the FDIC estimated that the BIF would incur a loss of \$171.6 million. To date, the final resolution of the bank's assets



has not been completed and additional losses may be forthcoming.

The Colorado State Banking Board closed BestBank on July 23, 1998 with an initial estimated loss to the BIF of \$28 million. In accordance with section 38(k) of the Federal Deposit Insurance Act, we initiated a material loss review to (1) determine the cause of the bank's failure and (2) evaluate the FDIC's supervision of the institution.

We determined that BestBank's demise was attributable to bank management's failure to operate the institution in a safe and sound manner, which led to substantial losses in the bank's high-risk unsecured credit card travel program. BestBank initiated the credit card travel program in 1996 through telemarketing efforts that targeted subprime² borrowers. The telemarketed package included a travel club membership, which provided an option to purchase a cruise vacation along with other offers and discounts. Borrowers who met the bank's minimal underwriting standards and expressed an interest in obtaining the credit card submitted an application and a \$20 application fee. Upon approval, the credit card account was established with a \$600 credit limit. With an initial charge of \$543 to cover the \$498 travel package and a

¹There are allegations of potential fraudulent activities involving BestBank and Century in connection with the unsecured credit card travel program. These allegations were beyond the scope of the material loss review and are currently being pursued by the FDIC and federal law enforcement agencies.

²A subprime borrower is one whose credit is below good credit standards. A subprime loan is usually referred to as marginal, nonprime, or below "A" quality. Subprime borrowers pose a greater risk and are characterized by paying debts late, filing for personal bankruptcy, and/or having an insufficient credit history.

\$45 annual fee, available credit to each borrower was only \$57. BestBank funded the program while Century and its affiliated companies originated, managed, and accounted for the credit card accounts. Century retained the bulk of the funds, and BestBank recorded an unsecured credit card receivable on its books.

The program was highly successful in terms of dollar volume. More than 500,000 new cards were issued and BestBank's assets grew 648 percent in 2 years, from \$42 million in mid-1996 to \$314 million at the bank's closing. This increase was primarily attributable to the unsecured credit card travel program. During this 2-year span, the bank's chief executive officer (CEO) and president benefited from multi-million dollar bonuses that were directly tied to the growth of these accounts and the revenues generated by the account fees. Century and its affiliates benefited from the costs and fees charged to the new account-holders.

Regarding supervisory oversight, we concluded that DOS could have been more effective in controlling the bank's rapid asset growth and curbing the subsequent losses to the BIF. Obstacles created by BestBank management and existing regulatory authority impeded the examiners' access to the bank and restricted access to Century. The examiners continued to rate the bank without sufficient or reliable information to support the ratings, particularly asset quality. Moreover, the supervisory tools that were available to the regulators were not aggressively pursued in a timely or effective manner.

Considering that unsecured subprime accounts usually have a high delinquency rate requiring sufficient reserves to cover potential losses, the

examiners became concerned about the bank's rapid asset growth and continuing low delinquency rate. BestBank's delinquency rate on the credit card travel program initially was high, but dropped substantially when Century modified its agreement with the bank and agreed to repurchase delinquent accounts more quickly. Meanwhile, BestBank officials began impeding the examiners' access to bank records and staff. Also, the FDIC did not obtain access to records supporting Century's financial statements until 1998. While the examiners were not certain that Century had sufficient resources to cover potential future losses, they relied on the fact that Century had been repurchasing delinquent accounts as agreed. All the while, the examiners were never fully aware of the toll the credit card operation was taking on the bank or of the losses that the credit card operation would later cause to the BIF.

Bank management's assertion that the bank could survive without Century's assistance prompted a visitation in May 1998. The examiners reviewed the assumptions included in the bank's cash flow projections and concluded that the assumptions were erroneous. Prior to a June 1998 joint examination, FDIC examiners researched several consumer complaints of improper credits appearing on the accounts. The examiners found that the low delinquency rates were the result of Century's application of \$20 "credits" to 368,892 delinquent accounts without actual payments from the borrowers. These accounts represented 74 percent of the total active subprime credit card travel accounts, with an outstanding balance of \$179.6 million. Apparently, the application of the \$20 credits was an attempt to make the credit card accounts appear current, precluding the need for Century to repurchase

these accounts. After the examiners determined that the bank did not have sufficient funds to absorb the estimated losses from these delinquencies and that Century did not have the financial capability to repurchase the delinquent accounts, the Colorado State Banking Board closed the bank.

As a result of our material loss review, we made 11 recommendations designed to provide FDIC examiners (1) access to third-party servicers that have the ability to significantly affect the safety and soundness of an insured institution, (2) unfettered access to bank employees and records during examinations, and (3) guidance for improving the examination process. We have reached agreement with the Corporation on 10 of the 11 recommendations, including alternative actions for 3 recommendations. Regarding the remaining recommendation, DOS has agreed to take partial action. DOS disagrees with our recommendation that examiners refer potential allegations of wrongdoing in open banks to the OIG. This disagreement is further discussed in table 1.7 of this report. We will continue to work with DOS to reach an understanding on this significant management decision.



report's contents and recommendations. He acknowledged that the feedback was timely and would be fully incorporated into DOS's ongoing efforts to improve the implementation of the risk-focused examination process. In December 1998, the director of DOS issued a memorandum to the regional directors clarifying DOS's expectations for the risk-focused examination process and took action to implement our recommendations.

Supervising Insured Institutions and Protecting Consumer Interests

The FDIC is the primary federal regulator for almost 6,000 institutions that have assets totaling nearly \$1.2 trillion. In addition, the FDIC provides supervisory oversight, although not as the primary regulator, for about 4,600 institutions with total assets over \$5.3 trillion. Although a steady decline in the number of insured institutions is projected over the next 5 years, total assets are projected to increase. 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 deposit insurance funds.

In accordance with statutory requirements and corporate policy, DOS projects starting over 2,600 safety and soundness examinations in 1999. DOS also provides off-site analysis for all institutions, including those for which it is not the primary regulator. This analysis includes reviewing Office of the Comptroller of the Currency, Office of Thrift Supervision, and Federal Reserve Board examinations and Securities

and Exchange Commission filings. DOS also processes applications for numerous bank activities such as new bank proposals, mergers, and change of control requests. Furthermore, DOS initiates formal enforcement actions and informal corrective programs as a result of its examinations.

Protecting Consumers' Rights

In addition to the safety and soundness issues related to the financial condition of insured institutions, the Corporation must deal with matters related to bank compliance with laws pertaining to consumer protections and civil rights that are equally important in today's banking environment. A key consideration in this regard is the Community Reinvestment Act (CRA), a 1977 law intended to encourage insured banks and thrifts to meet local credit needs, including those of low- and moderate-income neighborhoods, consistent with safe and sound operations. The Congress has mandated that the bank regulatory agencies evaluate institutions' CRA

performance and that these evaluations be disclosed to the public starting in July 1990.

Banking laws related to CRA and consumer protections have changed some in the past several years. The environment in which financial institutions operate is evolving rapidly, particularly with the acceleration of interstate banking, new banking products,

electronic banking, and the increase in consumer bankruptcy rates. Further, due to the public interest aspect of consumer protections and potential consumer exposures, the FDIC has a strong incentive for the early detection and correction of problems in institutions, promoting compliance with consumer protection laws and regulations, and increasing public understanding of and confidence in the deposit insurance system. The Division of Compliance and Consumer Affairs (DCA) projects conducting over 2,300 compliance/CRA examinations in 1999, with a decrease to approximately 2,000 examinations per year over the next 4 years. DCA functions include responding to consumer complaints and inquiries. The volume of these complaints and inquiries is expected to range between 90,000 and 140,000 per year from 1999 through 2003.

OIG Targets Key Supervisory Areas

To help the FDIC more effectively fulfill its bank supervision responsibilities, the OIG has targeted a

number of key areas that include: coordination with other federal and state banking regulators; DOS's case manager program; and the compliance examination program, including the frequency, priority, and scope of these examinations as well as CRA performance evaluations. We issued the results of our work in these areas during the reporting period.

Joint Review of the Federal Financial Institutions Examination Council's Training Program

The Inspectors General of the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, Department of the Treasury, and National Credit Union Administration completed a joint review of the Federal Financial Institutions Examination Council's (FFIEC) Training Program and issued a final report on March 31, 1999. This area was selected for review because it represents a principal function of the FFIEC as specifically mandated by legislation and has not been the particular focus of any recent Inspector General audits or reviews.

The objectives of the review were to determine whether (1) the goals of the FFIEC's training program are being met, (2) the Task Force on Examiner Education (TFEE) is an efficient and effective vehicle for guiding the FFIEC's training program, and (3) the current budget process adequately serves the goals and objectives of the FFIEC's training program. The report contains four recommendations to help improve management of the FFIEC's training program and thereby maximize its usefulness to the member agencies.

The executive secretary, on behalf of the Council, provided written comments on a draft of the report. The response states that the Council is generally receptive to the recommendations and has charged one of its members, the TFEE chair, and the executive secretary to develop a recommended course of action for discussion at the next Council meeting in June 1999. The executive secretary also suggested that the Council would welcome continued assistance and guidance from the Offices of Inspector General in implementing the recommendations. As lead agency on this audit, the FDIC's OIG will continue to monitor the status of the recommended actions.

Coordination of Exams with State Banking Authorities in the Kansas City Region

We completed an audit of the FDIC's coordination of safety and soundness examinations with state banking authorities in the Kansas City region. The Kansas City regional office has primary supervisory responsibility for approximately 1,600 banks in 7 states. In accordance with section 10(d) of the FDI Act, federal regulators must examine insured financial institutions every 12 or 18 months, depending on asset size and CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk) ratings. The FDIC may alternate examinations with a state banking authority if it determines that a state examination fulfills the examination requirements contained in the FDI Act. As a way to conserve resources and minimize regulatory burden, the FDIC alternates examinations with most state banking departments.

We determined that DOS's Kansas City Regional Office closely

the FDIC's database of call reports, examination and structure information, and other pertinent information for use in safety and soundness examinations.

Although DOS closely coordinates examinations with the state banking departments, we found 80 instances where DOS did not comply with the examination frequency requirements of the FDI Act. In addition, we believe that the process used to rely on state examination reports could be strengthened. Finally, we concluded that the Cooperative Examination Agreements should be updated, and that DOS should work closely with the state of Iowa to develop a more symmetrical examination cycle that would provide a better assessment of risk and ease regulatory burden. The report contained four recommendations that address these issues. Management agreed with three of the four recommendations and has taken the necessary steps toward implementation. The recommendation that management did not fully agree with relates to reliance

companies to one individual, regardless of charter and location, and by encouraging a more proactive, yet non-intrusive, coordinated supervisory approach. DOS implemented the program in April 1997.

The OIG conducted an evaluation review to learn how regional offices have implemented the Case Manager Program, obtain regional management and staff's views on how well the program was achieving its objectives, and identify any issues warranting further review or management attention.

Regional management and 85 percent of case managers that were sampled viewed the program favorably. Despite the overall positive comments, however, 47 percent of case managers said it was difficult to effectively manage caseloads because of competing responsibilities. Case managers were particularly concerned about processing applications and the quarterly reports prepared on large institutions. These functions took a

coordinates examinations with state banking authorities. The regional office has entered into Cooperative Examination Agreements with all seven state banking departments in the region. The agreements address the scheduling and frequency of examinations as well as pre-examination procedures, examination report processing, and enforcement actions. In addition, each state banking department has access to

on state examination reports and is the subject of an ongoing OIG nationwide audit.

Implementation of DOS Case Manager Program

The primary goal of the FDIC's Case Manager Program is to significantly enhance risk assessment and supervision activities by assigning responsibility and accountability for a caseload of institutions or

considerable amount of their time and limited their ability to focus on risk and supervisory issues.

Some case managers also questioned whether the quarterly reports, as presently structured, resulted in a useful product for management. Most significantly, case managers did not view the reports as being timely or dynamic. Case managers indicated that the

FDIC Addresses OIG Concerns over the Processing, Collection, and Tracking of Public Requests for Supervision Reports

In September 1998, in response to a request from management, we completed an audit of the Division of Supervision's (DOS) processing, collection, and tracking of public requests for Uniform Bank Performance Reports and Call Reports. We concluded that there were no management controls over DOS's tracking and billing processes and that DOS's electronic tracking system was ineffective. As a result of our audit, DOS implemented a prepayment system that eliminates the need to track and monitor past due invoices and, with the assistance of the Division of Finance, initiated a collection of outstanding receivables. In a related matter, the FDIC's Internet Operating Committee (IOC) is in the process of determining the best approach to posting products for sale on the FDIC's Internet website and ensuring payment. In consideration of internal control concerns raised during our audit, the IOC is concerned that (1) there are no corporate-wide policies for pricing products offered for sale to the public or receiving payments on these products and (2) there is no corporate-wide listing of products for sale. The FDIC's Internal Control Liaison Council is assisting the IOC in this effort.

underlying financial data was 1 to 2 quarters behind by the time DOS executives in Washington reviewed the reports. Given the dynamics of the industry, case managers questioned whether the reports were the best vehicle for communicating emerging risks to senior officials in Washington.

We recommended that DOS study what constitutes a manageable workload for a case manager and evaluate Regional Office best practices for managing the fluctuating applications workload. We also recommended that DOS study the efforts to produce, and the value provided by, the quarterly reports, and whether actions could be taken to increase the value of the reports. DOS agreed with two of our three recommendations. DOS will evaluate best practices of the regions for managing the applications workload and anticipates amending the structure, frequency, and distribution of the quarterly reports. DOS believed that existing regional processes provide for proper monitoring of workload fluctuations.

DCA Policy for Determining Examination Frequency, Scope, and Priority

During this reporting period we issued our first report related to the FDIC's CRA and consumer compliance examination function. The report addressed the FDIC's policy for determining the frequency, scope, and priority of CRA performance evaluations and compliance examinations for state non-member financial institutions.

In January 1998, the FDIC's DCA issued a new risk management policy for the examination process. The policy extended examination frequency requirements for up to 5 years and required examiners to evaluate compliance with certain

laws and regulations using aggressive scoping procedures (eliminating or reducing the review for certain laws and regulations) to the greatest extent possible to save time during compliance examinations. Although it was noted that DCA intended for this policy to improve risk management procedures for conducting examinations within existing resources, we concluded that the risk management policy permitted changes to DCA's examination process that would make it less comprehensive than the compliance programs at the other federal bank regulatory agencies. Moreover, we were concerned that the extended examination cycle and reduced testing of certain laws and regulations could diminish the FDIC's ability to adequately enforce consumer protections and may give banks and the public the perception that the FDIC had placed a lower priority on conducting these examinations.

As a result of our audit, the new policy has been superseded and examiners are again required to conduct full-scope compliance examinations at least once every 3 years, depending on a bank's previous ratings and asset size. Also, compliance examiners are now required to conduct examinations using a risk-focused approach based on the risks identified in the individual banks under review.

We also found that in 1996 DCA redefined its internal control risk assessment related to meeting examination frequency requirements and detecting noncompliance by banks and that in 1997 DCA lowered the associated risk ranking from "medium" to "low." However, we believe that the redefined internal control risk did not adequately represent the risk of

not detecting noncompliance in banks. As a result, we recommended that DCA re-examine the internal control risk assessment. DCA management agreed with our recommendation to separately identify and evaluate the risk areas related to the detection of noncompliance in banks and DCA's ability to meet examination frequency requirements. Additionally, DCA management will re-evaluate the risk ranking level in the fourth quarter of 1999 for the year 2000 Management Control Plan submission.

Maximizing Returns from Failed Institutions

The FDIC is charged with minimizing the negative financial effects of failing and failed insured depository institutions in its receivership management program. The focus for this goal is on four areas: resolving institutions in the least costly manner, managing and marketing failed-institution assets to maximize return, pursuing monies due to the failed institution, and resolving debts of the institution fairly. Because of the decline in the number of problem banks and, therefore, the need for resolutions, the areas of asset management and disposition gain relative importance.

As of January 1, 1999, the FDIC held assets for liquidation that totaled \$2.4 billion in book value. The Division of Resolutions and Receiverships (DRR) noted in its March 1999 activity report that during the 3-month period ending March 31, 1999, total receivership assets managed by the Corporation declined from \$2.4 billion to \$2.1 billion (rounded), a 10 percent reduction. The current and projected asset workload is far below the \$165 billion held by the

FDIC and Resolution Trust Corporation (RTC) in 1992. Still, one of the FDIC's priorities continues to be that of effectively managing assets to ensure their timely, efficient resolution at the least cost to the insurance fund.

Focus on Protecting the Corporation's Interests in Securitizations and Equity Partnerships

The OIG's work is designed to ensure that the FDIC's interests in securitizations and equity partnerships (further described below) are adequately protected and that the related entities are performing as stipulated by the various agreements. The following briefly summarizes the financial magnitude of these areas:

The FDIC inherited a total of 72 securitization transactions with an initial total reserve fund balance of \$7.8 billion from the RTC. As of March 25, 1999, the FDIC reported that 54 active securitizations with a reserve fund balance of \$3.3 billion remained in its inventory. A securitization involves selling securities that are primarily collateralized by various types of real estate loans to investors. In an effort to rapidly sell large amounts of loans to obtain the greatest financial benefit, receivership loans are pooled together as collateral to back securities sold to investors in the secondary market. This process results in mortgage-backed securities, or pass-through certificates.

The FDIC assumed 42 equity partnerships (not including the Judgments, Deficiencies, and Charge-offs Program) with assets having an original book value of \$9 billion from the RTC at its sunset. As of February 28, 1999, 37 equity partnership agreements with assets having a book value of

\$786 million remained in the FDIC's inventory. Underlying assets include sub- and non-performing mortgage loans and owned real estate. The Corporation has a limited ownership interest in the equity partnerships, which are set up so that the private-sector party that holds the general ownership interest is responsible for disposing of the assets.

OIG Questions Handling of Payment Retention Funds by Master Servicer and FDIC and Raises Other Oversight Issues

During the current reporting period we completed seven audits that focused on the roles, responsibilities, and effectiveness of servicers, trustees, and the FDIC in certain securitizations and an equity partnership. These audits resulted in questioned costs of \$1.2 million. One of the audits, *Payment Retention Funds Established by the Resolution Trust Corporation for Securitized Transactions Serviced by Lomas Mortgage USA*, reviewed whether the master servicer had properly accounted for the payment retention funds (PRFs). (This was a follow-up to a similar audit performed in November 1996 that questioned \$3.5 million in PRFs that another servicer had not returned to the RTC.) PRFs were established to ensure that investors in a securitized product received a predictable, steady stream of payments. As these securities are backed by mortgages, the PRFs provided the master servicer with funds to make up shortfalls in monthly payments from borrowers; the PRFs were ultimately to have been returned to the Corporation. During the audit, the OIG expanded the scope to include the FDIC's oversight of the master servicer and efforts to reconcile and settle the outstanding PRFs.

The audit determined that approximately \$28.2 million of the \$60.3 million (or 47 percent) in PRFs that the RTC had established for four Lomas securitized transactions had not been properly accounted for or returned to the FDIC as of September 1998. Moreover, the FDIC had not adequately overseen the transactions since assuming the RTC's responsibilities in January 1996. For example, the FDIC did not protect the Corporation's interests by filing a proof of claim for the outstanding PRFs with the bankruptcy court when Lomas filed for bankruptcy. Also, the FDIC did not determine the new master servicer's legal liability for returning the outstanding PRFs or the relationship of \$10.1 million received from a primary servicer to the Lomas transaction. Finally, the FDIC did not effectively communicate with the new master servicer to promptly reconcile and settle the transactions. The OIG recommended that a task force consisting of staff from DRR, the Division of Finance (DOF), and the Legal Division be formed to jointly review and resolve all outstanding issues related to the Lomas transactions.

As a result of an OIG recommendation for the report entitled *Audit of the Credit Enhancement Reserve Fund for 1993-03*, DRR issued more specific guidance to its oversight contractor to enhance the quality of the realized loss¹ reviews that the contractor performs. Also, NationsBanc, the successor servicer for this and various other securitization transactions, has returned \$262,912 to the FDIC for unsupported and unallowable claims to the reserve fund. NationsBanc is further cooperating with DRR to determine an overall historical error rate for the prior claims submitted for reimbursement from the reserve fund by its predecessor servicer. As

¹A realized loss consists of the net proceeds upon liquidation of an asset, advances made by the servicer, and the remaining principal balance on the loan.

such, a recovery to the reserve fund based on this work is likely. We will continue to monitor the progress of this potential recovery and report on it in future semiannual reports.

Future audits of securitizations and equity partnerships will concentrate on calculations of realized losses, unallowable expenses, the adequacy of the oversight in DRR, and affiliate transactions. However, we have concluded that we will not perform additional audit work for residential securitization terminations at this time as our survey results show no significant systemic problems with these terminations. We may, though, review commercial securitization terminations. Also, the OIG may perform audits and make recommendations that will support DRR in achieving its own 1999 Annual Performance Goals related to strengthening both oversight methodologies for securitization transactions and policies and procedures for processing receivership claims.

allow for those goals to be adjusted by any new assets added during the goal year. However, the results, which are measured against the goal, include both the sales of the assets comprising the established goal and the sales of any assets received and sold during the year. The OIG suggested that DRR may obtain more meaningful results by either increasing the goal during the year to include added assets that DFOB expects to sell or establish a separate goal for assets added during the year. This type of approach is an example of how we intend to continue linking our planned reviews to corporate strategic goals. (See OIG Plans Future Results Act Strategies section.)

Partnering with the Corporation: Collecting Court-Ordered Restitution

As first noted in our March 1998 semiannual report, the OIG is working with DRR to collect \$1.2 billion in court-ordered restitution from several hundred individuals and entities. Those

others. As of the end of this reporting period, about \$139 million has been collected.

Although DRR tracks this kind of outstanding debt for the FDIC and pursues collections, the OIG Investigations staff assists DRR by sharing information, especially in cases where the debtors may be deliberately concealing assets, and by participating in investigations of debtors alleged to be fraudulently avoiding making payments. Examples of some of these cases are included in the Investigations section of this report.

The OIG believes that teamwork is the key to resolving these investigative matters most successfully. Some ongoing team efforts the OIG is engaged in include its continuing work with two Massachusetts groups, the New England Bank Fraud Task Force and the Judicial Enforcement Team. In these endeavors, agents from the Federal Bureau of Investigation, Secret Service, and FDIC OIG work with the U.S.

Survey Issued Regarding Proceeds from Sales of Loans

The OIG performed a survey of proceeds from loan sales by the Dallas Field Operations Branch (DFOB), DRR, to gather background information on how DFOB handles proceeds from the sales of loans. The survey disclosed one issue for DRR's consideration: Sales goals that were set in the quarter preceding the goal year did not

court orders result from criminal convictions stemming from schemes to defraud federally insured institutions that have resulted in losses to the FDIC. Our work in the restitution area focuses on individuals who have attempted to avoid making payments to the FDIC by making false statements concerning their assets and/or ability to pay, and/or by concealing or illegally transferring assets to

Attorneys Offices, U.S. Marshals, and employees of the U.S. Probation Office to identify those individuals who may be fraudulently avoiding court-ordered restitution. The OIG has been coordinating with the Office of the U.S. Trustee to identify individuals who have avoided payment to the FDIC of court-ordered restitution by filing false bankruptcy claims. As part of this effort, we have become active

participants on Bankruptcy Fraud Task Forces in Phoenix and Tucson, Arizona.

Managing Information Technology

According to the Corporation's Information Technology (IT) Strategic Plan for 1998-2003, IT is critical to the Corporation's success and can be leveraged to support the FDIC's business goals. The Corporation is focusing its efforts on key business processes that are most fundamental to the Corporation's success and is working to improve these processes. At the same time, it is seeking to identify where and how technology can be used to support these efforts and better support the Corporation and its customers.

The Strategic Plan contains six key goals in the IT area: Improve Customer Satisfaction with Application Systems; Reduce Corporate Costs Through the Use of Technology; Manage Information for the Corporation; Provide an IT

The OIG's work in the IT area is conducted with a view toward the goals the Corporation is trying to achieve. As discussed earlier, a principal focus of our work related to IT has been in connection with the Corporation's Y2K efforts. Our other IT work generally focuses on systems development efforts; specific application reviews; computer services and security; and planning, procurement, and administration. During the reporting period, we issued the results of work in several of these areas.

DIRM Needs to Adhere to Systems Development Life Cycle Process

Second Report on TAPS Project

A major systems development effort that the Corporation undertook was its effort to develop a time and attendance processing system. The two-phased process to develop a fully automated time and attendance system was initiated in 1995. The Time and Attendance Processing System (TAPS) was to be the final solution. In our last semiannual report, we

During the current reporting period we issued a second report discussing TAPS. We concluded that the TAPS project team continued to deviate from the FDIC's SDLC process, did not provide senior management with the information needed to make informed decisions, and did not perform effective contractor oversight. As a result, the FDIC terminated the TAPS project in July 1998 after expending at least \$6.5 million and completing only a functional requirements and external design document.

We made eight recommendations to strengthen controls over and enhance SDLC procedures and processes. The response to the draft report from DIRM's director and subsequent correspondence with him and the special assistant to the deputy to the Chairman and chief operating officer provided responses to all recommendations that satisfy the concerns addressed in the audit report.

Infrastructure that Works Everywhere, All the Time; Improve the Efficiency and Effectiveness of IT Management; and Fix the Year 2000 Problem. Accomplishing these goals efficiently and effectively requires significant expenditures of funds and wise decision-making and oversight on the part of managers. The Corporation has budgeted \$211.2 million for IT expenditures in 1999.

reported that the TAPS project team had failed to follow the FDIC's system development life cycle (SDLC) methodology, and we recommended actions intended to improve the development effort. Despite these recommendations, the Division of Information Resources Management (DIRM) continued to deviate from the FDIC's SDLC.

GENESYS Project

A second major systems development effort that the Corporation has conducted is the General Examination System (GENESYS) development project. GENESYS is the FDIC's most comprehensive initiative to apply technology to the bank safety and soundness examination process. GENESYS will replace the FDIC's Automated Report of Examination

and WordPerfect templates used by DOS examiners to generate the Report of Examination. GENESYS is intended to improve the quality of the Report of Examination and the efficiency of the report preparation process by incorporating time saving and data integration features of Microsoft Windows 95 and Office 97 software.

We recently issued the results of our second review of the GENESYS development project. We concluded that although DIRM and DOS had improved the development practices for GENESYS following our initial audit, GENESYS development continued to deviate from the FDIC's SDLC process. We also identified opportunities for the FDIC to improve the efficiency of the GENESYS development process by formalizing up-front, inter-agency development agreements and reducing the turnover of key program office staff assigned to the project. In addition, we found that GENESYS security features needed to be improved and that more complete and up-to-date cost-benefit information on GENESYS needed to be tracked and reported.

As a result of the audit, we recommended that the director, DIRM, modify and adhere to the FDIC's SDLC methodology, maintain and update project cost-benefit information, follow a phased testing approach for future systems initiatives, and improve the security of the GENESYS application. We also recommended that the director, DOS, evaluate the feasibility of establishing a permanent core staff to manage the development of major DOS systems, including GENESYS. Finally, we recommended that the directors, DIRM and DOS, formalize interagency development

agreements and obtain FDIC Board of Director approval prior to investing significant FDIC resources to satisfy non-FDIC requirements of GENESYS. The Corporation's response provided us with the requisite elements of a management decision for all recommendations.

Audit Addresses Information Systems Security in Regional Office

The FDIC Dallas office is important to corporate operations as the leading liquidation site for failed financial institutions. DRR's Field Operations Branch and DOF's Field Finance Center are both located in Dallas. Although the overall management of mainframe applications, data, initial passwords, and Local Area Network (LAN) security policies resides with FDIC operations in Washington, D.C., sound security practices in Dallas support corporate information systems integrity and safeguard corporate assets. Effective security practices require restricted and monitored access to systems and a timely recovery in the event of a catastrophe.

During the reporting period we completed an audit of information systems security in the FDIC's Dallas office. Our objectives were to determine whether FDIC Dallas's security controls protected computer systems and local area network equipment and whether contingency plans ensured restoration of general support and major application systems should a disaster occur.

Our audit revealed a number of security lapses that, when taken together, raised concerns relating to security over vital information and costly equipment relied upon by FDIC staff to accomplish the Corporation's mission. The

Accounts Payable and Purchase Order system was well protected, but controls over the LAN, Liability Dividend System, Personnel Action Request System, and LAN equipment needed improvement. We found problems with password procedures, granted levels of access, security reviews, security officer duties, access revocation, independent reviews for programming changes and dividend processing, edit report details, door locks, and fire protection. Also, Dallas DIRM's contingency plan did not ensure that important systems could be restored in the event of a disaster. Our audit acknowledged that significant corporate changes had affected information security in Dallas. Specifically, when the FDIC's Southeast Service Center in Atlanta, Georgia, transferred its workload to the Dallas office, a new LAN operating system was installed, and all Dallas divisions relocated to new office space. FDIC Dallas was addressing these changes and working to enhance controls during the course of our audit.

Based on our audit work, we made 17 recommendations to FDIC Dallas officials addressing various elements of systems security. Corporation officials in DIRM, the Division of Administration (DOA), and DOF provided written responses to a draft of our report. The Corporation agreed with all of the recommendations.

Additional OIG Work in the IT Area

Additional OIG work this reporting period in the IT area included a report on the Corporation's Cryptographic Infrastructure Design and on its Call Processing System. Cryptography is the process of writing in or interpreting secret code. The Corporation uses this type of process in applications like

its Electronic Travel Voucher Payment System that is designed to provide a paperless method of handling travel arrangements and expense reimbursements.

We concluded that DIRM implemented sufficient controls to support the use of software that encoded sensitive data related to financial institution performance reports. We also concluded that DIRM implemented partial controls to support the use of other security software as the prime ingredient for establishing trusted information sharing among select individuals. However, we determined that DIRM testing of this software was incomplete and that DIRM had not established adequate checks and balances over sensitive operations. In addition, DIRM's intended use of the software did not comply with National Institute of Standards and Technology and General Accounting Office requirements, and internal control practices were not fully documented. In addition, we determined that the FDIC's automated registration process of this software allowed the possibility for users to masquerade as other users.

The FDIC's Call Processing System is used by DOS to record and process information received from FDIC-insured financial institutions regarding each institution's income, assets, and liabilities. Information contained in this system is used by other FDIC reporting and monitoring systems. It is also used extensively by the FDIC and other financial institution regulatory agencies in their daily off-site bank monitoring activities. Call data are also used by the public, the Congress, state banking authorities, researchers, bank rating agencies, and the academic community. These data provide the only publicly available source of information

regarding the status of the nation's banking system. Therefore, it is of paramount importance to preserve the data's integrity and accuracy.

Our audit of the Call Processing System identified opportunities to improve the integrity, security, and documentation of the system. All but one of the findings in our report were corrected by DIRM staff prior to our draft report issuance. The Corporation agreed with the one recommendation we ultimately made.

Ensuring Sound Controls and Oversight of Contracting Activities

Despite a decline in the number of both awarded and active contracts, the FDIC continues to rely on private-sector contractors to accomplish its mission. In all areas where contractors are involved, the Corporation must ensure that it is receiving the services it is paying for and that it has sufficient controls over contractor billings to help prevent fraud and abuse. The Corporation must also guard against finding itself in a position where it cannot pursue claims against contractors because of lapses in its own oversight of their activities.

Contractors assist the FDIC in many areas including legal matters, property management, loan servicing, asset management, information technology, and financial services. Projections of 1999 non-legal contract awards and purchases total 4,400 actions valued at \$275 million. One of the most active areas of contracting in the Corporation regards information technology. As of March 31, 1999, there were more than 340 active information resources management contracts valued at over \$376 million that had been

awarded in headquarters. Approximately \$123 million of this expenditure authority had been spent and \$253 million remained to be used. Also, the FDIC's Legal Division projects that nearly \$40 million will be paid to outside law firms in 1999.

The OIG continues to focus resources on auditing contracts and agreements. In this reporting period, the OIG audited contracts in such varied areas as property management, legal billing, employee food services, and assisting the FDIC with its monitoring of equity partnership oversight (see also Maximizing Returns from Failed Institutions).

Non-Legal Audits Include Contracts for Software, Food Service, and Property Management

The OIG audited billings of The Application Support Company (TASC), a firm that was hired by the FDIC to upgrade its all-encompassing financial information management software and to create a new financial information management system. The OIG questioned \$296,585 of the \$7.4 million invoiced and paid during the 17-month audit period ended May 31, 1997. (The \$7.4 million audited is approximately 64 percent of the total contract amount of \$11.6 million.) Specifically, TASC billed the FDIC for such items as incorrect hourly rates, excessive hours billed per day, and for work performed by 33 subcontractors that did not have prior written approval to begin work as required by the contract.

The directors of both DOA, which performed the contracting function, and DIRM, which was responsible for the contract oversight, jointly responded to and generally agreed

with the OIG's recommendations. As a result, the directors agreed to disallow \$293,621 of the \$296,585 in questioned costs (99 percent). Further, DOA has agreed to review the current policy covering the use of the invoice check-list and make any revisions necessary to its Acquisition Policy Manual. DIRM agreed to select a sample of invoices from two other related contracts to test for billing errors similar to those identified in the TASC audit.

Also, the OIG performed an audit of the FDIC's food services contract with Aramark Services, Inc., and another audit of the property management of Shelter Cove, a condominium park, by the Hilton Group Company. The food service audit brought out the need for greater internal controls, while the Shelter Cove audit resulted in \$74,633 in questioned costs, most of which regarded Hilton's billings for subcontractors.

OIG Reviews Remaining Legal Fee Bills

A major area of audit over the past several years has been our review of legal fee bills submitted by firms doing business for both the RTC and FDIC. The OIG's goal in conducting audits of the firms' billings has been to ensure that firms adhere to the legal services agreements' billing requirements and that the FDIC pays only for allowed and supported fees and expenses. We have worked in close cooperation with the Legal Division throughout this endeavor.

Through March 31, 1999, the RTC and FDIC OIGs have issued 300 legal fee bill audit reports with questioned costs totaling more than \$37 million. Although the number of contracts in this area has declined, risks to the FDIC remain. During the current

reporting period we issued five reports on legal fee bill audits and questioned \$293,643. Management agreed to disallow \$187,763 (64 percent) of that amount.

In addition, of the 24 OIG legal fee bill memoranda (also known as "small dollar" reports where the OIG believed questioned costs would be less than \$100,000) issued in prior reporting periods, 23 are closed. Of the \$422,825 in disallowed costs consisting of inappropriately charged fees and expenses, management has recovered \$329,296 (78 percent) to date and written off \$34,810.

Operating Effectively in a Changing Environment

Since 1994, as the work emanating from the banking and thrift crises has declined and continued consolidation of the financial services industry has occurred, the FDIC has accordingly reduced its workforce substantially. The workforce has fallen from a high of about 15,600 in mid-1993 to 7,340 as of February 8, 1999. More downsizing may be in store going forward.

At the same time, the FDIC is addressing staffing shortages in certain critical skill areas owing to the loss of such a high number of staff and strict prohibitions on hiring from 1992 through 1997. Additionally, through employee buyouts, early retirements, and other downsizing activities, the Corporation has lost a number of highly experienced managers and senior technical experts. The Corporation has predicted that approximately one of every six remaining FDIC employees either is or will become eligible to retire within the next 5 years. This number includes a disproportionate

number of senior managers and professionals in most divisions and offices.

Looking back over the past 12 months, in addition to the new Chairman assuming her position, many other significant personnel changes have occurred at the FDIC. Among others, Director Joseph Neely, who also served as head of the Audit Committee, left the Corporation and his director position has not yet been filled. The chief financial officer, who was also serving as the director of DOF, retired in June 1998, and the directors of three other major divisions--DOA, the Office of Diversity and Economic Opportunity, and DCA--also left. As of March 31, 1999, permanent successors have not been named for the chief financial officer position as well as the directorships of the four divisions mentioned previously. The division director of one of the FDIC's most critical divisions, DOS, left in December 1998 and has subsequently been replaced. The Office of Policy

Special Update

On May 18, 1999, Chairman Tanoue announced appointments to the following corporate positions:

- **Chief Financial Officer**

- **Directors of**
 - Division of Administration
 - Division of Compliance and Consumer Affairs
 - Division of Finance
 - Office of Diversity and Economic Opportunity

Development was also eliminated over the past reporting period. Given the number of such departures and organizational changes, the Corporation must plan for the successful transition to new leadership in the months ahead and ensure that, as a whole, the Corporation is well prepared to perform its mission and respond to any emerging problems in the financial services industry.

The FDIC's Diverse Workforce

The Corporation must also address another significant organizational challenge: diversity. The FDIC Chairman has noted that as the face of banking has changed, so has the face of the FDIC. The Corporation has encouraged the creation of a diverse workforce by culture, by experience, and by gender. As part of her February 4, 1999 remarks to the Corporation, the Chairman underscored the importance of promoting diversity in the workplace. The FDIC has adopted the following definition of diversity:

Diversity is about who we are as individuals, both differences and similarities. The Corporation recognizes that its strength comes from the dedication, experience, and diversity of its employees and believes that, given the opportunity, each employee can make a difference. The FDIC is committed to promoting and supporting an inclusive environment that provides to all employees the chance to work to their full potential-individually and collectively--in the pursuit of the Corporation's mission.

The Chairman appointed a Diversity Steering Committee consisting of senior corporate executives, and this group has developed a Diversity Strategic Plan to be

presented to the Board of Directors in the second quarter of 1999. This plan will outline in greater detail the Corporation's vision and mission with respect to diversity and will provide a long-term blueprint for the implementation of diversity initiatives. It will also serve as a tool for managers in the Corporation. The Corporation will need to monitor its progress in implementing the plan and ensure that it cultivates an environment as set forth in its definition of diversity.

OIG Review Addresses Legal Caseload Allegation Related to Downsizing

In connection with the Corporation's downsizing efforts over the past months, the OIG received a related Hotline allegation. It was alleged that to preserve their jobs, FDIC attorneys were claiming to have as their workload a large number of current matters, when, in fact, many of the matters were actually closed. We conducted an evaluation to determine the merits of this complaint.

Our review revealed no intentional coordinated effort to delay the reporting of closed matters in the Legal Management Information System (LMIS). We saw no evidence that the number of matters was a factor in determining required Legal Division staffing. Our analysis of sampled matters found no unreasonable delays in assigning matters to attorneys but did find indications that some matters should have been closed sooner in LMIS. For a substantial number of active, inactive, and closed matters, there was no documented activity for more than 90 days. This finding raised questions as to the veracity of the reported matter status and the progress being made in completing outstanding matters. We

concluded that management oversight could be improved to help ensure that completed matters are closed in LMIS timely.

As a result of our review, we made recommendations to improve controls over closing matters and to increase matter accountability and client responsiveness. We also identified management information system issues that resulted in the Legal Division eliminating the duplication of effort involved in using two case tracking systems and clarifying guidance for the division's system of record to provide greater assurance that the system accurately presents the current status of the division's caseload.

Processing Freedom of Information Act Requests

One of the Corporation's activities affected by a changing environment was the processing of Freedom of Information Act (FOIA) requests. FOIA was enacted in 1966 and provides that any person has the right to request access to federal agency records or information.

The Corporation's Office of the Executive Secretary (OES) is responsible for administering the FDIC's FOIA program. OES's task became more challenging when FOIA was amended in October 1996 by the Electronic Freedom of Information Act Amendments (E-FOIA) of 1996. Among other things, E-FOIA established expedited FOIA processing procedures and granted access to the public to certain government documents via computer telecommunications. The Corporation received 1,011 FOIA requests in 1997 and 811 requests during 1998. OES was processing these requests and initiating efforts to implement E-FOIA in the midst of losing staff.

We conducted an evaluation of this activity to determine whether FOIA requests were being logged, tracked, and addressed in a timely manner. We focused our efforts on identifying ways to accelerate the turnaround time on FOIA requests and to ensure that the FDIC can demonstrate good faith efforts in responding to FOIA requests as promptly as possible.

Our review showed that OES had made progress in improving the processing time for FOIA requests. OES had adopted measures designed to streamline and improve the process. OES also reduced its backlog of outstanding FOIA requests and had undertaken initiatives to address some of the requirements of E-FOIA. However, OES still experienced delays in responding to FOIA requests in 1997 and the first half of 1998. Some of the delays were unavoidable and were due to the magnitude, sensitivity, or remote location of requested records. However, other delays were due to the following:

- OES was not always timely in assigning FOIA requests to FDIC divisions and offices for responses,
- FDIC divisions and offices took longer than OES's prescribed time to respond to FOIA requests, and
- OES required more than its allotted time to review division and office responses for appropriateness and to prepare documents for release.

We made recommendations to improve the efficiency and effectiveness of the processes for both original FOIA requests and FOIA appeals, ensure that FOIA administrative files are complete, and modify the FOIA tracking

system to better monitor FOIA responses.

OIG Initiates Diversity Study

The OIG is fully committed to promoting diversity and has undertaken a study of diversity within the OIG. We are currently preparing a report that will be submitted to the House Subcommittee on Veterans' Affairs, Housing and Urban Development, and Independent Agencies, Committee on Appropriations. We initiated this study in response to language contained in the Subcommittee's report on the fiscal year 1999 appropriation.

Our objectives were to (1) identify workplace diversity issues within the OIG, (2) catalogue OIG initiatives taken to address the issues, and (3) develop suggestions that could further advance the OIG to be an organization where every employee can excel and reach his or her full potential in assisting us to achieve our mission.

To carry out the objectives, a steering group of OIG executive management and a task group of OIG staff composed of diverse representation including race, gender, grades, and organizational components conducted the study. The steering group provided guidance to the task group and used the work of the task group and other data to prepare a report. The task group gave every OIG employee an opportunity to express his or her views about diversity-related issues and actions needed in the OIG. Approximately 80 percent of the staff participated in individual or group meetings. The FDIC's Office of Diversity and Economic Opportunity provided statistics on the OIG's workforce composition that we are using to prepare our report.

We expect to provide the report to the Subcommittee and share it with all OIG staff by the end of May 1999.

Establishing Goals and Measuring Results

The Government Performance and Results (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 the agencies' mission and vision, an annual performance plan that translates the vision and goals of the strategic plan into measurable objectives, 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: Insurance, Supervision, and Receivership Management. The plans focus on four strategic results that communicate desired outcomes identified for each program area. The four strategic results are: (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 Institutions Invest in Their Communities, and (4) Recovery to Creditors of Receiverships Is Achieved. Through its annual performance reports, the FDIC will be accountable for reporting actual performance and achieving these strategic results, which are closely linked to the major issues

discussed in this semiannual report. As required by the Results Act, the Corporation must submit its initial program performance report to the President and the Congress no later than March 31, 2000.

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 measures to strategic goals, and establishing processes to verify and validate reported performance data. As the General Accounting Office noted in its review of the Corporation's 1998 Annual Performance Plan, the FDIC is seriously committed to fulfilling both the requirements of the Results Act and congressional expectations that the plans inform the Congress and the public about the FDIC's performance goals, including how the agency will accomplish those goals and measure the results. As of February 1, 1999, the Corporation had finalized and submitted its 1999 performance plan to the Congress.

OIG Prepares Results Act Review Plan

On October 7, 1998, the House Leadership sent a letter to the Inspectors General of agencies directly subject to the Chief Financial Officers (CFO) Act requesting that they develop and implement a plan for reviewing their agencies' Results Act activities. The Results Act review plan would be submitted as part of the OIG's April 1999 semiannual reports to the Congress (and updated annually thereafter) and would examine (1) agency efforts to develop and use performance measures for determining progress toward achieving performance goals and

program outcomes described in their annual performance plan and (2) verification and validation of selected data sources and information collection and accounting systems that support Results Act plans and reports. Findings and recommendations from Results Act reviews would be included in each subsequent semiannual report. 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.

The FDIC OIG is fully committed to taking an active role in the Corporation's implementation of the Results Act. In this regard, we completed a number of initiatives in 1998 related to providing oversight of the Corporation's implementation process. Although the FDIC is not an agency subject to the CFO Act, we are developing a Results Act review plan that establishes an oversight strategy for future OIG work in the Results Act area. These initiatives and strategy are more fully described below.

In 1998, the OIG reviewed the FDIC's strategic and annual performance plans that were being revised and updated as part of the 1999 planning cycle and provided comments to FDIC management regarding the draft plans' compliance with the Results Act. For the year 2000 and future planning cycles, the OIG will continue its practice of providing advisory services to management regarding the Corporation's Results Act plans and reports undergoing development or revision.

In addition, the OIG completed a pilot review in November 1998 of an FDIC division's systems used to capture performance information and the procedures used to verify and validate performance data reported in the Corporation's annual performance plan and quarterly performance reports. The specific review objective was to determine the adequacy and reliability of information systems and data supporting DRR's receivership activity as reported in FDIC performance reports. An OIG standard work program for evaluating the adequacy and reliability of information systems and data supporting the performance results was also developed. The program can be used for similar Results Act-related reviews.

We found established goals, targets, and performance indicators for managing FDIC receiverships and information in FDIC's quarterly performance reports to show DRR's progress in meeting those goals and objectives. However, performance reporting could be improved. We found a number of reporting discrepancies in FDIC quarterly performance reports. The discrepancies occurred because DRR did not clearly communicate performance reporting criteria to DRR service centers, have service center staff confirm performance results, or effectively use an existing information system to report termination activity.

DRR took actions to clarify performance reporting criteria and correct the discrepancies we identified. As a result of our review, DOF also established reporting requirements for instances when division goals, measures, or reporting methodologies change to preserve the historical continuity of performance reporting trends.

OIG Plans Future Results Act Strategies

For the future, the OIG is developing a Results Act review plan for the independent oversight of the Corporation's implementation of the Results Act. This plan consists of the following integrated strategies designed to help ensure that the Corporation complies with the Results Act and has systems in place to reliably measure its progress toward achieving its strategic and annual performance goals:

- **Linking Planned Reviews to GPRA.** We will link planned reviews to corporate strategic and annual performance goals and objectives and provide appropriate Results Act coverage through audits and evaluations. As part of this strategy, the OIG has established specific goals in its own annual performance plan to ensure OIG reviews are relevant and linked to corporate strategic goals.
- **Targeted Verification Reviews.** We will maintain a continual program of independent reviews to evaluate the adequacy and reliability of selected information systems and data supporting FDIC performance reports. As part of the pilot review discussed above, the OIG developed a standard work program to conduct these evaluations.
- **Advisory Comments.** We will continue our practice of providing advisory comments to the Corporation regarding their update or cyclical preparation of strategic and annual performance plans and reports.

OIG, GAO Continue Collaboration on Financial Statement Audit

The OIG continues to work in partnership with the U.S. General Accounting Office (GAO) toward the goal of assuming complete responsibility for the FDIC annual financial statement audit. The OIG experienced a shift in audit responsibilities for the 1998 audit. The OIG Dallas staff has assumed complete responsibility for auditing the methodology for determining the estimated values of receivership assets, internal controls over receivership cash receipts and disbursements, and the FDIC's oversight of contractors who manage and dispose of receivership assets for the FDIC. The OIG Washington staff has assumed full audit responsibility for cash and investments. This year the OIG staff planned the audit approach and methodology for these areas, which were approved by GAO. GAO will rely completely on the OIG work for these key components of the financial statement audit.

The OIG is committed to the effort of assuming the duties of performing the annual FDIC financial statement audit and will continue to allocate staff to ensure the successful transfer of this critical function.

Also, in connection with the government-wide consolidated financial statement audit, this year the Inspectors General certified for the first time the accuracy of their agency's fiscal year financial data included in the government consolidated financial audits. The Inspectors General were also required to submit an "agreed-upon audit procedures" report to the Department of the Treasury and GAO.

To prepare the consolidated financial statements, the Treasury receives financial data from the agencies and enters the information in the Federal Agencies Centralized Trial Balance System (FACTS). Treasury then returns that data to the agencies for review and certification. The OIG team certified the accuracy of the FACTS data and issued the required report by the March 3, 1999 deadline.



The OIG will continue to develop its integrated oversight strategy so that the OIG's Results Act-related efforts fully conform to the spirit and intent of the Act.

The OIG will also continue to monitor and review legislation proposed in the Congress to amend the Results Act and will actively participate through the President's Council on Integrity and Efficiency and the inter-agency groups it sponsors to refine appropriate OIG Results Act roles, responsibilities, and activities. The results of these activities will be used, as appropriate, to adjust the OIG oversight strategy.

OICM Pursues OIG-Identified Cash Management Issues

Based on an October 1998 meeting where the OIG questioned the Legal Division's compliance with the FDIC directive regarding cash, check, and wire transfer procedures, the Office of Internal Control Management (OICM) has taken this issue one step further by reviewing the current procedures and actual practices of all FDIC divisions. OICM's goal is to work with each division/office to establish lockbox procedures for all remittances due the FDIC and strong internal controls when use of the lockbox is not feasible.

In addition, OICM has developed and implemented a cash and cash equivalents (receipts) review program. This program tests the effectiveness of controls for receipt identification, segregation of duties, and implementation of policies and procedures.

OICM will work with the Division of Finance on this effort and provide periodic updates to the OIG and the U.S. General Accounting Office as this review continues.

Investigations

The Office of Investigations is responsible for carrying out the investigative mission of the OIG. Staffed with agents in Washington, D.C., Atlanta, Dallas, Chicago, and San Francisco, the Office of Investigations conducts investigations of alleged criminal or otherwise prohibited activities impacting the FDIC and its programs. As is the case with most OIG offices, Office of Investigations agents exercise full law enforcement powers as special

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. Attorneys' offices throughout the country in attempting 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 include cases prosecuted by U.S. Attorneys' offices in the Middle District of Florida, the Northern and Southern Districts of Texas, the Northern and Central Districts of California, the District of Maine, the District of Massachusetts, and the District of Columbia.



Joint Efforts

Results

deputy marshals under a blanket deputation agreement with the Department of Justice (DOJ). The Office of Investigations' main focus is on investigating criminal activity that may harm or threaten to harm the operations and 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

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 U.S. Secret Service, and other law enforcement agencies in conducting investigations of joint interest. We also participate actively on a number of task forces.

The New England Bank Fraud Task Force has contributed significantly in the fight against financial institution fraud. Pictured above from left to right are: William Stapleton, Task Force Director; Dana Bedwell, OIG; Paul Andrews, Task Force Attorney; Gary Sherrill, OIG.

Among these task forces is the New England Bank Fraud Task Force (NEBFTF), which was established by DOJ in 1991 to combat fraud against federally insured financial institutions. Currently, one of our agents serves full time on the NEBFTF, while others are routinely assigned to work cases arising from it. The NEBFTF is scheduled to disband later this year and intensive efforts are underway to complete work on all substantive cases remaining. Under the guidance of a senior DOJ official and staffed by highly skilled and experienced DOJ prosecutors, the NEBFTF has been highly effective in prosecuting individuals whose fraud schemes contributed to the failures of financial institutions, as well as in pursuing those who have defrauded institutions still in operation.

We have also dedicated resources this period to work being conducted by the newly formed Philadelphia Bank Fraud Task Force. Additionally, we have recently joined the Internet Fraud Task Force that was

established by the Securities and Exchange Commission's Office of Internet Enforcement and the FBI to identify and investigate potentially fraudulent activities on the Internet relating to banking and securities issues.

Our work with task forces and other agencies has been an integral component of our investigative initiatives targeting fraud by FDIC

Investigative Statistics

Judicial Actions:

Arrests	4
Indictments/Informations	9
Convictions	10

Actions Involving FDIC Employees as a Result of Investigations:

Terminations	4
Suspensions	1
Resignations/Retirements	2

OIG Investigations Resulted in:

Fines of	\$ 221,600
Restitution of	261,516
Monetary Recoveries of	3,239,500
Total	\$ 3,722,616

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

28

Referrals to:

FDIC Management	7
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OIG Cases Conducted Jointly with Other Agencies 39

debtors. Our proactive work in this area is designed to identify and pursue cases in which FDIC debtors have concealed assets or committed other fraud in attempting to avoid repayment of their obligations to the FDIC. In developing these cases, we have been working closely with the Office of the United States Trustee to identify FDIC debtors who have fraudulently filed for bankruptcy in an attempt to escape their obligation to pay. We have also been participating with the U.S. Trustee Bankruptcy Fraud Task Forces in Phoenix and Tucson, Arizona, in connection with these efforts.

Our proactive work involving FDIC debtors includes efforts to identify and pursue individuals subject to court-ordered restitution who have concealed and/or misrepresented their assets to avoid making payment. We have been working closely with the FDIC's Division of Resolutions and Receiverships, the Financial Litigation Units of U.S. Attorneys' offices, and U.S.

individuals subject to court-ordered restitution. We have reported past successes working with JET in prior semiannual reports. For this period, our work with JET resulted in the first ever revocation of an individual's probation for failure to pay restitution.

OIG Office of Investigations managers and agents nationwide also regularly attend meetings, provide assistance, and participate with a number of other task forces and working groups designed to identify and pursue financial institution fraud. These groups include the U.S. Attorneys' office Bank Fraud Working Group in Los Angeles, California, the U.S. Postal Inspection Service Financial Crimes Task Force in Dallas, Texas, the U.S. Secret Service Metro Alien/Financial Crimes Task Force in Dallas, Texas, and the Financial Fraud Task Force in Tampa, Florida. Our participation in these and other multi-agency working groups demonstrates the importance we place on working with our law enforcement colleagues to

identify areas requiring Office of Investigations attention.

Results

Over the last 6 months the Office of Investigations opened 35 new cases and closed 36 cases, leaving 146 cases underway at the end of the period. Our work during the period led to indictments or criminal charges against 9 individuals, and 10 defendants were convicted during the period. Criminal charges remained pending against 60 individuals as of the end of the reporting period. Fines, restitution, and recoveries stemming from our cases totaled over \$3.7 million. During the period 12 civil settlements were reached, with 34 suits pending at the end of the reporting period. Some of the case highlights resulting from our investigative activity over the last 6 months are as follows:

Former Officers of Famous Kentucky Horse Farm Indicted in Connection with Alleged Scheme to Defraud Bank

Probation officials on this project, which was undertaken after earlier investigations in the restitution area led to substantial recoveries for the FDIC. Our work with the Judicial Enforcement Team (JET), a task force created by the Financial Litigation Unit of the U.S. Attorneys' office, District of Massachusetts, has been particularly successful in this area. The group was formed for the purpose of pursuing hidden assets of

maximize efficiency and produce results.

Internal cooperation is also important in achieving results. The OIG's Office of Investigations and the Office of Audits coordinate to identify matters that warrant our combined resources. OIG representatives also meet periodically with FDIC managers from various divisions to coordinate on matters of mutual concern and to

Two former executives of a famed Kentucky thoroughbred horse farm that went bankrupt 8 years ago were indicted this period on an array of charges stemming from an alleged scheme to defraud the now defunct First City Bancorporation of Texas. As outlined in the indictment returned by a federal grand jury in Houston, Texas, in December 1998 and unsealed in March 1999, the farm's president conspired with the chief financial officer to pay a

\$1.1 million bribe to a former director of First City to obtain \$65 million in loans for their financially troubled horse farm. Among other racing greats, the farm once housed Alydar, the famous stallion who came in runner-up to Affirmed in each of the 1978 Triple Crown races. Alydar, who later became one of the most valuable sires in thoroughbred history, was used as collateral for over \$50 million in loans that the farm obtained from First City. The indictment alleged that the two farm executives, along with the former First City director, intentionally failed to disclose to bank officials that the director had a valuable lifetime breeding right in Alydar. Further, the farm's president allegedly failed to disclose that the farm had sold and transferred more than 15 lifetime breeding rights in Alydar. The former director allegedly used his position with the bank to facilitate the approval of disbursements of loan proceeds and extensions of credit to the horse farm. He also allegedly impeded bank officers' attempts to collect from the farm.

most heavily insured thoroughbred in history. After his death, the farm collected \$36.5 million in insurance claims. Over \$16 million of those funds went to First City. This phase of our investigation earlier led to the conviction of a stable groom who was present at the farm the evening Alydar suffered his leg injury. The groom was found guilty of lying to a grand jury regarding the circumstances surrounding Alydar's death. As a result, he was sentenced to serve 5 months incarceration, followed by 5 months of home confinement. He was also sentenced to serve 2 years of probation.

The investigation regarding First City, which we joined in progress after it was first initiated by the FBI, earlier led to the conviction of seven individuals on fraud-related charges. One of those convicted was the First City vice chairman who was tried and convicted twice in connection with fraudulent activity at the bank. He is still serving a sentence of almost 22 years. Restitution orders stemming from the First City investigation now total over \$10 million. Fines of \$900,000 have been imposed.

The death of the race horse Alydar and the demise of the Kentucky stables that housed him are not just the subjects of a criminal investigation. A book, as well as a number of magazine feature stories, have been dedicated to the mystery surrounding the racing legend's untimely death.

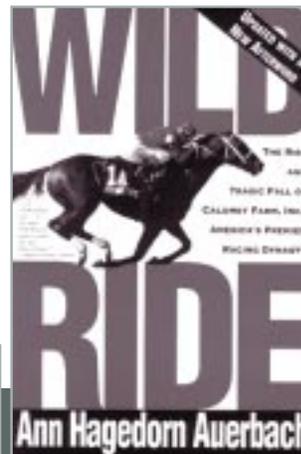


Photo of Alydar's stall.

The latest charges in the case stem from our ongoing investigation with the FBI and the Criminal Investigations Division of the IRS into loan activities involving First City, which failed in 1992. Part of our investigation centers on the circumstances surrounding Alydar's untimely death in 1990. Alydar was euthanized after sustaining a broken leg while housed in his stall at the Kentucky horse farm. At the time of his death, Alydar was the



The investigation of fraud at the First City Bancorporation of Texas, Inc., has led to the conviction of seven individuals, restitution orders of over \$10 million, and fines of \$900,000.



Civil Case Leads to Recovery from Contractor

A couple who provided auction services to the FDIC and the former Resolution Trust Corporation (RTC) agreed to pay the government \$1.6 million to settle a law suit brought against them under the False Claims Act. As part of the settlement, the couple also agreed to drop a lawsuit they had filed against the FDIC that exposed the Corporation to potential liability in excess of \$366,000.

companies were allegedly used to overbill the FDIC and RTC. In some instances the companies were found to have charged as much as \$80 per hour for work that actually cost \$24 per hour.

The FDIC and RTC paid the shell company more than \$1 million in commissions, the equivalent of about 1 percent of the proceeds from the auctions. The firm also received more than \$2.5 million for expenses it claimed to have incurred in connection with the auctions. Under the False Claims Act, the defendants were personally liable for up to three times the nearly \$3.6 million paid the shell company by the FDIC and RTC. Had the couple gone to trial, they also could have faced an additional \$5 million penalty under the provisions of the Financial Institutions Reform Recovery and Enforcement Act of 1989 for making false statements designed to influence the RTC and FDIC.

To date, the couple has paid \$1 million of the agreed upon \$1.6 million settlement. The remaining \$600,000, plus interest of more than \$40,000, is to be paid over the next 2 years and is secured by homes and property owned by the couple in California. As part of the settlement, property previously seized by the government under a seizure order will be released.

Former FDIC Contractor Agrees to Pay \$600,000 Settlement to FDIC

Following our investigation into allegations made in a "qui tam" suit, a settlement was negotiated under which an FDIC contractor is to pay the FDIC \$600,000. (A "qui tam" suit is a civil action brought by a private party under the False Claims Act, which the government may elect to join as a complainant.



The suit was filed by the United States Attorneys' office for the Central District of California based upon evidence developed during an OIG investigation indicating that the couple had fraudulently obtained contracts with the FDIC and RTC and had overbilled both agencies. As described in the lawsuit, the couple allegedly obtained lucrative contracts under the FDIC and RTC Minority and Women Owned Business program by falsely certifying that a company established by the husband was owned and controlled by the wife. Our investigation disclosed that the company was in fact a "shell" for the husband's auction firm. Based upon the false representations made to the FDIC and RTC, the shell firm received contracts to perform more than a dozen auctions. The auctions, conducted in California, Texas, Louisiana, Massachusetts, Connecticut, and New Jersey, were for the purpose of liquidating property that the FDIC and RTC obtained when the agencies took control of failed banks and savings and loans.

The civil complaint also alleged that the couple used subsidiaries of the auction company to perform work related to the auctions and failed to identify these subcontractors as "related entities." The subsidiary

The outstanding efforts of Assistant U.S. Attorney (AUSA) Mark Labaton led to a \$1.6 million civil recovery from an FDIC contractor. Pictured at top, left to right: Jim Connolly, OIG; AUSA Mark Labaton; U.S. Attorney Alejandro N. Mayorkas; Roy Nilsen, OIG.

Also, pictured here are properties seized in connection with the OIG's investigation of a couple accused of fraudulently obtaining contracts with the FDIC and RTC and overbilling both agencies.

If the government proves the case, the party initiating the suit may be entitled to share in any resulting monetary recoveries.) Over \$400,000 of the funds have been received by the FDIC. The remainder of the funds are being held pending resolution of claims made on those funds by the two brothers who brought the qui tam suit. In their complaint, the brothers alleged that the FDIC had been defrauded by a bank in Maine. The Maine bank had entered into an assistance agreement with the FDIC under which the bank was responsible for operating another bank on behalf of the FDIC. The brothers alleged that the defendant bank falsified documentation in order to require the FDIC to repurchase the equivalent of \$1.6 million of their unsecured promissory notes. The brothers had defaulted on the notes, and virtually all of their assets had been sold. Although our investigation developed evidence to support the allegations, the contractor made no admissions when entering into the settlement agreement.

Restitution Case Leads to Revocation of Probation

A milestone was reached this period in an ongoing restitution investigation we are conducting with the Judicial Enforcement Team in the U.S. Attorneys' office for the District of Massachusetts. The case marks the first time a judge has ever revoked an individual's probation as a result of failure to pay court-ordered restitution. The judge did so based on evidence developed in our case to date, indicating that the defendant had misrepresented her ability to make restitution payments to the FDIC and had violated the terms of her probation.

The defendant, a former Massachusetts developer, had been sentenced in 1995 to serve 24 months in prison and was ordered to pay the FDIC \$10.9 million in restitution for defrauding the former Bank of New England. Her conviction was in part based on her use of \$28 million in loan proceeds to support her extravagant lifestyle. She used loan proceeds to rent a luxury apartment at the Boston Ritz Carlton and to buy a Ferrari, a Lincoln Continental, jewelry, and boats.

After serving her 2-year sentence, the developer was placed on probation. During that time she has failed to make any restitution payments to the FDIC, representing to her parole officer that she was indigent and unable to work because her spouse was terminally ill and blind. Our investigation, which is still underway, suggests otherwise—evidence developed during our investigation led to a probation revocation hearing. As disclosed at the hearing, our investigation determined that the developer lied to probation officials about where she lived. She falsely claimed to be living in a spare bedroom of a friend's house. In order to fool probation officials during their home visits, she arranged for her friend to display photographs of the defendant's family in the spare room. In reality, the developer was living in a luxury condominium in an affluent Connecticut suburb which she had leased under an assumed name. She also established a bank account and secured a post office box under an assumed name, neither of which was reported to probation officials. Further, the woman maintained a number of credit cards that she failed to disclose to probation officials. The investigation also developed

Shown below is a storage space that a former Massachusetts developer rented to attempt to conceal many valuable assets from the courts and the FDIC. A few of those assets, works of art, are pictured here.



evidence that the woman has traveled extensively in violation of her parole, which requires that she remain in the state of Connecticut. For instance, we found that she had traveled to an exclusive Bahamas resort for her daughter's wedding. During their trip to the Bahamas, her purportedly blind spouse was observed driving a golf cart around the island. Evidence has also been produced indicating that the developer has other assets she has not reported. For instance, the developer's monthly rent expenses alone exceed the amount of her husband's social security check, which she reported to be her sole source of income. Additionally, as described at the probation revocation hearing, our investigation developed evidence that the developer, despite her claims of indigency, had attempted to open an interior decorating and furniture store in Connecticut, using friends to mask her ownership. She allegedly offered to supply her friends with all the merchandise necessary to open the store. She indicated that it would be necessary to lease a large space for the store to accommodate all of her furniture.

Based on the evidence presented at her probation revocation hearing, the judge revoked the developer's probation and remanded her to a federal halfway house for 6 months, followed by 90 days of electronically monitored home detention. She was also ordered to immediately obtain employment and commence payment of \$300 per month in restitution to the Corporation.

OIG Investigation Thwarts Debtor's Attempt to Declare Bankruptcy

Information developed by the OIG in connection with another ongoing restitution case led this period to

the dismissal of a bankruptcy filing by an individual subject to a criminal restitution order. Our ongoing investigation, which focuses on the subject's alleged concealment of assets, is being conducted under the guidance of the Financial Litigation Unit of the U.S. Attorneys' office for the Northern District of California. In 1987, the subject and his brother pled guilty to misapplying funds and overvaluing securities to Golden Pacific Savings Bank. As a result, he served 5 years in a federal correctional institution and was ordered to make restitution of over \$6.7 million to the FDIC. A balance of over \$4.8 million of that debt still remains. In December 1998 the subject filed a petition for relief under Chapter 13 of the United States Bankruptcy Code. During the course of our investigation, the OIG determined that the subject had failed to list the restitution debt in his petition for relief. He also failed to notify the U.S. Attorneys' office and the FDIC of the filing of the petition. Based on this information, the U.S. Attorneys' office filed a motion to dismiss the petition, and the Bankruptcy Court dismissed the case.

Officers of Texas Corporation in Debt to FDIC Plead Guilty to Tax Fraud Charges

Our participation with the IRS and the FBI on a Justice Department Task Force culminated this period with guilty pleas of two defendants who were earlier indicted on charges of conspiring to defraud the FDIC and IRS. Under the terms of a plea agreement, the defendants ultimately pled guilty to three counts of aiding and assisting in the preparation and submission of false federal tax returns. One of the defendants was the chief executive officer (CEO) of a Texas corporation that owned and

operated television stations in the District of Columbia and Massachusetts. The other defendant served as the chief financial officer for the corporation. Our investigation found that the two were responsible for the submission of false tax returns, understating more than \$162,000 in income over a 3-year period.

Our investigation originated as part of an Independent Counsel investigation exploring an alleged conflict of interest involving the television broadcasting company's CEO and a former cabinet official. Following the cabinet official's death, the investigation of the television broadcast company officers continued as part of a Justice Department Task Force. Our participation in the investigation was initiated based on allegations that the officers of the broadcasting business had concealed and diverted assets from the corporation, which was a debtor to the FDIC. The corporation had defaulted on a \$21 million loan from a Texas savings and loan, which later failed. As a result, the FDIC assumed the loan. As part of her plea agreement, the broadcasting company's CEO admitted that she had made false statements to the FDIC by claiming she was receiving no salary from the corporation when in fact she was drawing \$250,000 per annum in salary compensation.

Charges Brought in Independent Counsel Investigation Stem in Part from Alleged False Statements to OIG Agents

In November 1998, the Grand Jury in the United States District Court for the District of Columbia indicted former Rose Law Firm partner and former Assistant Attorney General of the United States, Webster L. Hubbell, on 15 counts, including corruptly impeding the functions of

the RTC and FDIC, defrauding the RTC and FDIC, making false statements to the FDIC and RTC, and committing mail fraud. The indictment alleges that Hubbell withheld and concealed material facts from the FDIC and RTC to obtain and maintain employment contracts for legal work from those agencies and that he later falsified and concealed from agents and investigators of the FDIC and RTC information pertaining to the Rose Law Firm's representation of Madison Guaranty Savings and Loan Association. Portions of the indictment arose out of statements made by Mr. Hubbell to FDIC and RTC special agents during the OIG investigations into potential conflicts of interest in the Rose Law Firm's representation of the FDIC and RTC during the late 1980s and early 1990s. It is currently expected that the case will be tried during the summer of 1999.

Former FDIC Employee Sentenced for Embezzling Funds

After earlier pleading guilty to embezzlement, a former FDIC employee was sentenced in the Northern District of Texas to serve 18 months imprisonment, followed by 3 years of supervised release. Our investigation found that while employed by the FDIC, the defendant had embezzled over \$350,000 from savings and loan association pension plans in Texas and Oklahoma. The FDIC had become receiver for the pension plans funds as a result of savings and loan failures. The defendant used the funds to purchase personal items including a residence and a BMW automobile. During the course of our investigation, the car was turned over to the government and the home was sold so that the proceeds could be applied to restitution, a significant portion of which the defendant

made to the FDIC prior to sentencing.

Former FDIC Attorney Placed on Probation After Making Harassing Calls from FDIC Telephones

As a result of another employee investigation conducted jointly with the Long Beach, California, Police Department, a former FDIC senior attorney was sentenced to serve 3 years of probation after pleading no contest to violation of a California state criminal statute governing telephone calls made with the intent to annoy. The former employee was also fined \$3,600 and was ordered to perform 150 hours of community service, continue psychological counseling; and write a letter of apology to a California rape crisis hotline. Allegations that the attorney had placed at least 24 harassing calls to the hotline while using FDIC telephones prompted our investigation. The employee resigned from the FDIC in the midst of the investigation.

Misconduct Investigation Leads to Employee Dismissals

In keeping with its mission to prevent fraud, waste, and abuse, the OIG, in addition to its criminal work, is required to conduct administrative investigations of employee misconduct when the alleged offense is serious enough and the potential consequences grave enough to warrant our involvement. One such investigation, conducted at the request of FDIC management, led this period to the dismissal of four FDIC employees. The OIG's investigation determined that the four had engaged in illegal drug activity. Dismissal charges against the employees also cited their history of leave abuses.

OIG Organization

This year marks the 10th anniversary of the FDIC Office of Inspector General, which was established on April 17, 1989 pursuant to the Inspector General Act Amendments of 1988. Prior to establishing the OIG, audit and investigative functions were performed by the Office of Corporate Audits and Internal Investigations. Until 1996, the Inspector General was appointed by the Chairman of the FDIC. The Resolution Trust Corporation Completion Act, enacted on December 1, 1993, provided that the FDIC Inspector General be a presidential appointee confirmed by the Senate.

A Decade of Evolution

Over its 10-year existence, the OIG has responded to a myriad of changing issues and challenges facing the FDIC, from managing and resolving a significant banking crisis to addressing emerging risks

when the FDIC has focused its work on new challenges facing the American banking industry at the dawn of a new century. The banking industry has emerged from the crisis at the beginning of the decade to experience unprecedented prosperity. Given the record earnings of commercial banks and the low rate of bank failures over the past several years, the FDIC has changed its focus from handling and resolving failed institutions to monitoring and assessing risks in insured institutions. As the banking crisis receded, the OIG responded by broadening its audit and investigative focus and becoming more proactive. The office also sought opportunities to engage in collaborative efforts with other corporate offices, Offices of Inspector General, and law enforcement agencies.

OIG Increasingly Focused on Corporate Goals and Partnerships

Over the years, the OIG has

A Decade of Evolution

OIG Increasingly Focused on Corporate Goals and Partnerships

OIG Launches Learning Organization Concept

in an increasingly complex banking industry. From 1980 through 1994, the FDIC managed the failures of 1,617 banks; during that time, in 1988, the insurance fund suffered a \$4.2 billion loss, the largest in its 55-year history. Throughout that time the OIG focused heavily on liquidation activities and the FDIC's Division of Accounting and Corporate Services. The middle and later 1990s marked a time

continued to look for new ways to add value to the Corporation's mission. Our current strategic goals, objectives, and operating principle are intended to provide a value-added focus to the Corporation and are directly linked to the FDIC's mission, strategic goals and objectives, and operating principle. In recent years, the OIG has conducted its audits and evaluations in the following seven

strategic areas that closely parallel corporate operations:

- Supervision and Consumer Affairs;
- Asset Management and Liquidation;
- Award, Administration, and Oversight of Contracts and Agreements;
- Financial Accountability and Internal Controls;
- Financial and Management Information Systems;
- Deposit Insurance; and
- Corporate Activities and Administration.

In addition, OIG investigations have sought to uncover and investigate criminal conduct that could harm or threaten the operations and integrity of the FDIC and its programs.

<i>Organization</i>	<i>Results</i>
	<p>The OIG has adopted a spirit of partnership in conducting its work. In this spirit, the office has worked diligently to build strong alliances with the FDIC's divisions and offices and the FDIC Audit Committee. In partnering with the FDIC to address current challenges, the OIG attempts to assist management in resolving issues and identify corporate vulnerabilities that the OIG must address</p>

**Table 1
Significant OIG Achievements**

\$ millions	
Audit Reports Issued	28
Questioned Costs and Funds Put to Better Use	\$ 2
Investigations Opened	35
Investigations Closed	36
OIG Subpoenas Issued	14
Convictions	10
Fines, Restitution, and Monetary Recoveries	\$ 3.7
Evaluations Initiated	7
Evaluation Reports Issued	5
Hotline Allegations Referred	13
Allegations Substantiated	2
Allegations Closed	24
Proposed Regulations Reviewed	6
Proposed FDIC Policies Reviewed	17
Responses to Requests and Appeals Under the Freedom of Information and Privacy Acts	21

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March 1999

to meet the OIG's mission under the Inspector General Act.

The OIG has also continued its strong cooperative relationships with other agencies' Offices of Inspector General, law enforcement agencies, professional organizations, and the U.S. General Accounting Office. We have sought opportunities to work with the President's Council on Integrity and Efficiency, the Executive Council on Integrity and Efficiency, and the Federal Financial Institutions Examination Council on several joint projects. These efforts are geared toward sharing ideas and capitalizing on the collective expertise of colleagues in other Offices of Inspector General, particularly those in other federal financial regulatory agencies. OIG staff participate in a variety of professional organizations, such as the Association of Government Accountants (AGA), the Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants, and internal conferences. In addition, the

Inspector General actively participates in professional organizations including the President's Council on Integrity and Efficiency on which he serves as chairman of the Audit Committee, the Financial Institutions Regulatory Agency Inspectors General Group, the AGA, the IIA, and the Intergovernmental Audit Forum.

Our partnerships and collaboration with the Corporation are reflected in the OIG mission and vision statements and in our planning for key activities and operational processes. To that end, we continue to participate on FDIC task forces to address critical issues facing the Corporation and review legislation, regulations, and proposed corporate policies that affect the FDIC's programs and operations.

The OIG's annual performance plan continues to reflect the OIG's emphasis on adding value to the Corporation and doing work that is responsive and relevant to the FDIC Chairman, Congress, and corporate

management. The plan contains five goals that focus on the OIG's core mission activities of audits, evaluations, and investigations by adding value to the Corporation, expanding the breadth of the OIG's contributions, emphasizing communications with our stakeholders, and increasing the efficiency of OIG internal operations. In keeping with the spirit of the Government Performance and Results Act of 1993, the plan also includes goals that commit the OIG to the continued development of performance indicators that better measure the impact and results of OIG work.

OIG Launches Learning Organization Concept

In keeping with our performance goals, the OIG is committed to being a learning organization in which we continuously examine our products and services, processes and operations, and working relationships. During this reporting period we launched the learning



Four Inspectors General have played a key role in the evolution of the FDIC OIG over the past 10 years. They are Robert D. Hoffman; James A. Renick; John J. Adair (from the former Resolution Trust Corporation); and Gaston L. Gianni, Jr.

organization initiative and have made it a central theme of an OIG conference planned for 1999. We began a process of self-analysis by gathering data about our operations and analyzing it to target areas for improvement. We completed the following four surveys during the reporting period, and various groups within the OIG are now analyzing the data:

- OIG management perceptions of our organization's mission, role, structure, work processes, and work products;
- Internal client satisfaction;
- External client satisfaction; and
- Diversity within the OIG.

Organization

To meet its core responsibilities under the Inspector General Act, the OIG maintains a comprehensive, nationwide structure for auditing, investigating, and performing reviews of FDIC programs and operations. This structure is based on the functional responsibilities legislated by the Inspector General Act of 1978.

The **Office of Audits** performs full-scope audits and reviews of corporate and receivership activities including any residual Resolution Trust Corporation matters. Audits are conducted in the headquarters or field offices, various sites nationwide, or FDIC contractors' offices. The Office of Audits ensures compliance with applicable professional audit standards, including those established by the Comptroller General of the United States.

The OIG also performs quick, short-term evaluations of specific FDIC operations or activities as a result of

OIG Assistance to FDIC Management

- Participated on FDIC Y2K Steering Committee with recommendation that the Y2K Oversight committee develop a corporate-wide Business Continuity Plan using the U.S. General Accounting Office's guidelines for Y2K business continuity planning. This recommendation resulted in the chairman of the Y2K Steering Committee's request for the OIG to participate in the FDIC's Business Continuity Working Group and, in this capacity, review and advise in the committee's development of the broader FDIC Business Continuity Plan.
- Provided the Division of Supervision with five best practice suggestions to enhance the quality controls over and consistency of approach for the Corporation's Y2K examination process.
- Continued to advise and consult with FDIC management regarding required documents and activities under the Government Performance and Results Act.
- Provided input to the Division of Administration's Acquisition and Corporate Services Branch (ACSB) on various administrative issues, which ACSB used in its decision-making process, including: suggestions on how to improve the food services contract, which were used to modify the current contract, and comments on the Draft Occupational Health and Building Environmental Monitoring Service Request for Proposal (RFP), which were used by FDIC in preparing the RFP.
- Participated in a meeting of the Information Technology Technical Committee to discuss certain recommendations from a recently completed OIG audit of FDIC's Time and Attendance Processing System Development Project and provided recommendations related to the approval process for initiating system development projects and for continuing projects that have significantly departed from planned budgets or milestones.
- Participated in meetings with the FDIC Diversity Steering Committee to establish a link with the OIG's diversity efforts.
- Advised General Counsel that the remittance processing practices followed by the Professional Liability and Legal Operations Sections contained potentially serious internal control weaknesses and conflicted with corporate policy.

OIG Hotline referrals or requests from the FDIC Board of Directors, the Congress, or senior FDIC managers. The **Office of Congressional Relations and Evaluations** plays a key role in this regard.

The **Office of Investigations** carries out a comprehensive nationwide program for the prevention, detection, and investigation of criminal or otherwise prohibited activity affecting the FDIC or its programs by FDIC employees, contractors, vendors, or other individuals or entities. The office maintains close and continuous working relationships with the U.S. Department of Justice, the Federal Bureau of Investigation, the U.S. Secret Service, other Offices of Inspectors General, and state and local law enforcement agencies.

The **Counsel to the Inspector General** provides independent legal services for the OIG that encompass every facet of OIG operations. Key activities include conducting legal research and writing opinions; preparing subpoenas; providing supportive advice and counsel on audit, investigative, and management-related topics; reviewing proposed legislation and regulations affecting the FDIC; conducting litigation; and processing requests and related appeals under the Freedom of Information Act and the Privacy Act.

The **Office of Management and Policy** manages essential OIG business activities such as budget and financial management, contract administration, human resource management, employee development and training, information systems development, the OIG's computer network, and the coordination of office-wide policy development. In addition,

OIG Internal Management Initiatives

- Launched "Learning Organization" concept within the OIG.
- Completed external survey of client satisfaction with OIG operations and processes.
- Conducted internal customer satisfaction surveys of activities of the OIG's Office of Quality Assurance and Oversight, Counsel's office, and Office of Management and Policy.
- Completed internal study to identify diversity-related issues in the OIG and to develop an action plan addressing the issues.
- Initiated planning for the first OIG-wide conference in the fall of 1999.
- Initiated a quality assurance review of the Office of Investigations.
- Issued Annual Audit Plan for 1999.
- Continued participation in inter-agency Government Performance Results Act Interest Groups sponsored by PCIE and U.S. OPM to share ideas and best practices on Results Act implementation.
- Submitted FY2000 budget request to the House Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations.
- Implemented OIGNet Intranet web site to keep OIG staff informed about internal OIG events, issues, and concerns.
- Participated with three other IG offices (Department of the Treasury, Board of Governors of the Federal Reserve System, and National Credit Union Administration) on inter-agency task force reviewing the FFIEC's Training Program.
- Published OIG informational brochure entitled *FDIC-Office of Inspector General, Get to Know Us!* that provides an overview of OIG functions, goals, and philosophy.
- Developed presentational materials entitled "Building Communication Throughout the Audit Process" to share with corporate auditees.
- Initiated study to determine whether opportunities exist for improving the value of training to the OIG.

this office manages the OIG Hotline and coordinates the OIG's comments on draft corporation policies and procedures.

The **Office of Quality Assurance and Oversight** is responsible for maintaining quality assurance programs for OIG activities, performing external quality assurance reviews of other OIGs,

the internal coordination and external oversight of internal control activities under the Chief Financial Officers Act and the Federal Managers Financial Integrity Act, and coordinating the OIG's strategic and annual performance planning processes under the Government Performance and Results Act.

GSA Peer Review Team Issues Results of Quality Control Review of OIG Office of Audits

The Inspector General's Office of the U.S. General Services Administration completed its quality control peer review of our Office of Audits' operations. The objective of the review was to determine whether our Office of Audits' internal quality control system was operating effectively to provide reasonable assurance that established policies, procedures, and applicable auditing standards were being followed in its audit work. The peer review team identified and assessed the following significant elements of the OIG's internal quality control system: (1) written policies and procedures, (2) staff qualifications, (3) supervision, and (4) the quality assurance review program. The GSA team concluded that the system of quality control used by our office was designed in accordance with standards established by the President's Council on Integrity and Efficiency and provided the OIG with reasonable assurance that it was in conformance with professional standards in the conduct of its audits. As a result, the team made no recommendations. We are proud of the results of this review and are committed to continuing to provide quality audit work to the Corporation.



To promote a better understanding of the mission and role of the Office of Inspector General at the FDIC, we developed and disseminated an informational brochure that we are sharing with members of the Congress and others with whom we conduct our daily work. For a copy of the brochure, contact us at the address listed on the inside back cover of this report.

Reports Issued and Investigations Closed

- Legend
- Oct 96–Mar 97
 - Apr 97–Sep 97
 - Oct 97–Mar 98
 - Apr 98–Sep 98
 - Oct 98–Mar 99



Figure 1

Figure 2

Questioned Costs/Funds Put to Better Use

(\$ millions)

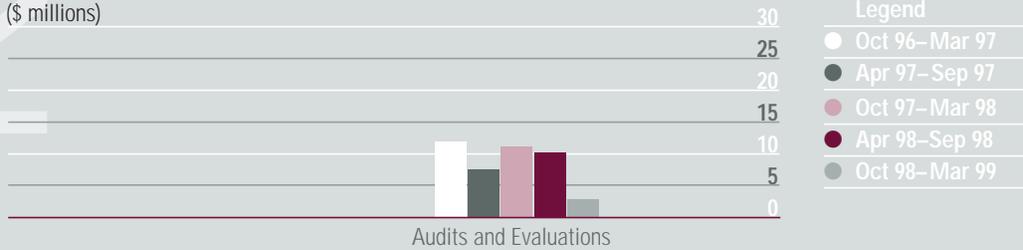


Figure 3

Fines, Restitution, and Monetary Recoveries Resulting from OIG Investigations

(\$ millions)

- Legend
- Oct 96–Mar 97
 - Apr 97–Sep 97
 - Oct 97–Mar 98
 - Apr 98–Sep 98
 - Oct 98–Mar 99

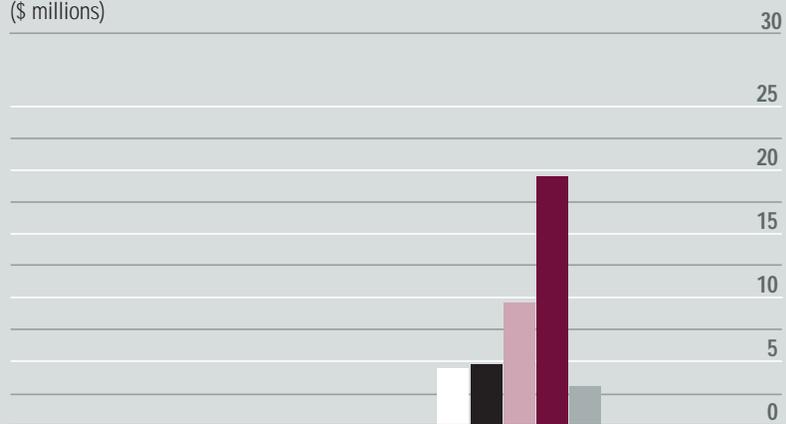


Table 2
Nonmonetary Recommendations

April 1997–September 1997	110
October 1997–March 1998	52
April 1998–September 1998	77
October 1998–March 1999	133

October 1, 1998–
March 31, 1999

**Highlights from Report on
1998 OIG Performance Goals**

The OIG issued an internal report on March 23, 1999, citing achievements under its 1998 Performance Plan. The 1998 plan contained the following goals:

- The OIG will develop quality and timely products that add value to the Corporation's operations.
- The OIG will sustain lines of communication between OIG staff and the client to support positive working relationships.
- The OIG will foster a work environment that supports, challenges, and respects its employees.
- The OIG will maintain a streamlined, dynamic operation that maximizes the ability of OIG staff to perform their work.
- The OIG will pursue opportunities to expand its contribution to the FDIC and the Inspector General community.

These 5 goals included 54 targets to measure progress. Of the 54, 23 were output-based (i.e., had a quantitative or specific measure) and 31 were not quantitative but involved initiating or maintaining a function or activity. In 1998, 18 of the 23 output targets were achieved. All 31 non-quantitative targets had activity reported to maintain existing functions or initiate functions.

The OIG will continue to monitor progress and report results of achieving the goals set forth in its 1999 Performance Plan.

Table 3
OIG Review of Legislation and Regulations

The OIG reviewed the following regulations and formal Statements of Policy, which are published in the Federal Register.

Deposit Insurance Regulations	Joint Accounts and "Payable-on-Death" Accounts
Part 328	Advertisement of Membership
Final Rule	Revising the Leverage and Risk-Based Capital Rules to Eliminate Certain Interagency Differences
Part 326	Know Your Customer
Part 326	Activities and Investments of Insured State Banks
Statement of Policy	Tax Allocation in a Holding Company Structure

Reporting Terms and Requirements

Reader's Guide to IG 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 (IG) 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**⁵ 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

The next step in the process is for FDIC management to make a decision about the questioned costs. The IG 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 IG 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 IG Act, final action is the completion of all actions that management has determined, via the management

What Happens When Auditors Identify Monetary Benefits?

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.

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 judgements 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

⁵ It is important to note that the OIG does not always expect 100 percent recovery of all costs questioned.

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. the implementation of the recommended actions and not the disallowance or recovery of costs.

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

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● Section 4(a)(2)	Review of legislation and regulations 45
● Section 5(a)(1)	Significant problems, abuses, and deficiencies 8 - 29
● Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies 8 - 29
● Section 5(a)(3)	Recommendations described in previous semiannual reports on which corrective action has not been completed 48 - 50
● Section 5(a)(4)	Matters referred to prosecutive authorities 31
● Section 5(a)(5) and 6(b)(2)	Summary of instances where requested information was refused 56
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● Section 5(a)(7)	Summary of particularly significant reports 8 - 29
● Section 5(a)(8)	Statistical table showing the total number of audit reports and the total dollar value of questioned costs 54
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● Section 5(a)(11)	Significant revised management decisions during the current reporting period 56
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Appendix I

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

categorized the status of these recommendations as follows:

Management Action in Process (12 recommendations from 5 reports)

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 (21 recommendations from 4 reports)

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

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 FDIC's Office of Internal Control Management (OICM). These 33 recommendations from 9 reports involve monetary amounts of over \$15.3 million. OICM has

Significant Recommendations from Previous Semiannual Reports
on Which Corrective Actions Have Not Been Completed

Report Number, Title and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
96-103 Follow-up Audit: Cost Estimate Process for Bank Resolutions September 13, 1996	1	Periodically compare initial Division of Resolutions least cost estimates with current Division of Finance records of actual liquidation activity and evaluate instances where wide variances, exist for the purpose of identifying recurring causes of the variances that should be considered in future least cost determinations.
Not Numbered Leasing and Renovation Activities March 18, 1998	1	Implement policies and procedures that require cases submitted to the Board of Directors be standardized.
	2	Include in the Division of Administration's cases to the Board of Directors significant changes to the standard lease provisions.
	3	Develop a procedure to ensure Chief Operating Officer pre-approval of planned leases exceeding the 5-year core staffing projections.
	4	Develop guidance for completing the lease extension cost comparison.
	5	Revise the current standard lease document to include a "Reduction in Services" clause.
	6	Include a provision in the Leasing Policy Manual that requires the tenant and landlord to sign and date lease amendments at the time the lease amendment is executed.
98-052 Implementation of Electronic Signatures to Support the Electronic Travel Voucher Payment System (ETVPS) and Other Planned Applications June 30, 1998	2	Perform an alternative and cost/benefit analysis to determine which alternative offers the most beneficial method for providing FDIC's electronic signature requirements that comply with the National Institute of Standards and Technology.
98-072 Legal Division's Fee Bill Review and Approval Process July 13, 1998	2	Develop enforceable sanctions for noncompliance.
	4	Strengthen administrative procedures for maintaining copies of files documenting Legal Services Agreements, amendments, services requiring advanced approval, and other pertinent documents.
	5	Periodically and randomly require law firms to submit copies of time sheets to support fees billed.
98-080 DIRM Operating Expenses September 15, 1998	1	Update the Acquisition Policy Manual to require that the Division of Administration's Acquisition Services Branch employees ensure that future purchase requisitions for on-line services are reviewed and authorized by the Library Services Unit.

Significant Recommendations from Previous Semiannual Reports
on Which Corrective Actions Have Not Been Completed

Report Number, Title and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
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.
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.
97-080 FDIC Property Tax Reassessments and Refunds, Western Service Center July 17, 1997	8	Disallow the improperly paid late fees and special assessments totaling \$4,385,089 and initiate action to prevent future payments of such amounts.
98-026 Assistance Agreement Audit of Superior Bank, Case Number, C-389c March 9, 1998	2, 3, 4, 6 11	Recover \$1,220,470 of assistance paid to Superior Bank. Compute the effect of understated Special Reserve Account for Payments in Lieu of Taxes and remit any amounts due to the FDIC.

Audit Reports Issued by Subject Area

Audit Report Number and Date	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Supervision and Consumer Affairs				
98-086 11-5-98	Implementation of the Risk-Focused Examination Process			
98-089 11-19-98	DOS Coordination of Examinations with State Banking Authorities in the Kansas City Region			
99-005 1-22-99	Material Loss Review – The Failure of BestBank, Boulder, Colorado			
99-013 3-15-99	DCA Policy for Determining Examination Frequency, Scope, and Priority			
Award, Administration, and Oversight of Contracts and Agreements				
98-084 10-30-98	The Application Support Company	\$295,621	\$68	
99-001 1-8-99	AEW's Performance Under Contract Number 700-92-0016-003			\$150,000
99-002 1-8-99	Supplemental Special Servicing Fees Billed for Securitizations 1992-M3, 1992-C5, 1994-C2, 1992-C1, & 1992-M2	\$24,223		
A99-003 1-11-99	Shelter Cove Property Management Contracts	\$74,633	\$53,510	
99-006 1-25-99	Legal Fees Paid to Comey, Boyd & Luskin	\$11,272		
99-007 1-20-99	Legal Fees Paid by FDIC & RTC to Lowe & Associates	\$87,632	\$73,966	
99-008 1-25-99	Wendover Funding's Loan-Servicing Contracts			
99-009 2-5-99	FDIC's Food Services Contract with Aramark Services, Inc.			

Audit Reports Issued by Subject Area

Audit Report Number and Date	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
99-012 2-11-99	Legal Fees Paid by RTC to Salem, Saxon & Nielsen	\$61,110	\$44,407	
99-014 3-12-99	Legal Fees Paid by RTC to Brobeck, Phleger & Harrison	\$93,289	\$19,313	
99-015 3-12-99	Legal Fees Paid by FDIC to Brobeck, Phleger & Harrison	\$40,340	\$4,884	
Asset Servicing and Liquidation				
99-010 2-12-99	Ocwen Federal Bank's Servicing of RTC Mortgage Trust, 1994-S2	\$477,573	\$461,591	
99-019 3-26-99	RTC Mortgage Trust 1995 NP3-3	\$9,660		
98-083 10-2-98	Securitization Credit Enhancement Reserve Fund 1992-CHF	\$385,727		
98-090 11-24-98	Credit Enhancement Reserve Fund for Securitization Transaction 1993-03	\$230,219	\$6,707	
99-004 1-12-99	Payment Retention Funds Established by the Resolution Trust Corporation for Securitized Transactions Serviced by Lomas Mortgage USA			
99-018 3-31-99	Securitization Credit Enhancement Reserve Fund 1992-6	\$68,105		
Financial and Management Information Systems				
98-085 10-26-98	Call Processing System			
D98-087 10-22-98	Information Systems Security - Dallas			
99-011 2-17-99	Time and Attendance Processing System Development Project II			
99-016 3-19-99	Cryptographic Infrastructure Design			
99-020 3-31-99	Follow-on Audit of FDIC's General Examination System Development Project			

Audit Reports Issued by Subject Area

Audit Report Number and Date	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Corporate Activities and Administration				
98-088 10-30-98	Processing of Adverse Personnel Actions			
99-017 3-18-99	Semiannual Report of FDIC Board Members' Travel Voucher Reviews – September 1998 through February 1999			
Totals for the Period		\$1,859,404	\$664,446	\$150,000

Audit Reports Issued with Questioned Costs

	Number of Reports	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period.	1	\$116,577 ^a	0
B. Which were issued during the reporting period.	13	\$1,859,404	\$664,446
Subtotals of A and B	14	\$1,975,981	\$664,446
C. For which a management decision was made during the reporting period.	14	\$1,975,981	\$664,446
(i) dollar value of disallowed costs.	14	\$1,891,201 ^{b, c}	\$568,082
(ii) dollar value of costs not disallowed.	4 ^d	\$110,919	\$96,364
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

^a On report A98-082, a management decision was not reached during the previous reporting period because a legal opinion was being sought for recommendations 1 and 3. During this reporting period, management decided to disallow the question costs pertaining to those recommendations totaling \$116,577.

^b On report A98-082, management made a revised management decision during this reporting period on recommendation 2. Management decided to disallow the \$26,139 that it had allowed during the previous reporting period.

^c On report 99-018, a loan servicer reviewed an OIG finding for \$68,105 in incorrect interest charges for one securitization transaction and did not dispute the finding. The loan servicer agreed to reimburse the FDIC a total of \$304,558. Of this amount, \$167,631 related to the securitization 1992-06 (covered by this audit) and \$136,927 related to securitization 1992-09. Management chose to disallow \$68,105. The total disallowed costs include only the \$68,105.

^d The four reports included on the line for costs not disallowed are also included in the line for costs disallowed, since management did not agree with some of the questioned costs.

Audit Reports Issued with Recommendations
for Better Use of Funds

	Number of Reports	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.	1	\$150,000
Subtotals of A and B	1	\$150,000
C. For which a management decision was made during the reporting period.	1	\$150,000
(i) dollar value of recommendations that were agreed to by management	1	\$150,000
- based on proposed management action.	1	\$150,000
- based on proposed legislative action.	0	0
(ii) dollar value of recommendations that were not agreed to by management.	0	0
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**

There was a partial disagreement with one of our recommendations in the BestBank report, and we believe this disagreement to be significant. We recommended that the director of DOS develop and implement a policy where examiners take prompt action to address allegations of potential wrongdoing, including referring such allegations to the regional director, regional counsel, and, in certain circumstances, the OIG. DOS management agreed to revise or supplement existing guidance in section 9.2 of the DOS Manual of Examination Policies to address handling of allegations of potential wrongdoing, including requiring regional office referrals when examiners receive such allegations. However, DOS management does not agree with that portion of our recommendation concerning referring allegations to the OIG. DOS believes that if there is a regulatory problem, DOS and the Legal Division can handle it; if it is a criminal problem, the Federal Bureau of Investigation is set up to handle that. Further, DOS's view is that investigations of alleged wrongdoing by open banks or in open banks, in most instances, is a program responsibility of DOS, not the OIG.

The OIG has the responsibility, pursuant to the Inspector General Act Amendments of 1988, to carry out a comprehensive nationwide program for the prevention, detection, and investigation of criminal or otherwise prohibited activities affecting the programs and operations of the FDIC. In the case of BestBank, the allegation suggested possible criminal obstruction of the conduct of an FDIC examination, which we believe should be investigated by the FDIC OIG.

**Table I.8
Instances Where Information Was Refused**

During this reporting period, there were no instances where information was refused.

Appendix II

Report Number	Title	Date
EVAL-98-003	The Division of Resolutions and Receiverships' Reporting of Receivership Termination Activity in FDIC Quarterly Performance Reports	November 23, 1998
EVAL-98-004	Analysis of the Legal Division's Caseload	December 14, 1998
EVAL-99-001	Federal Deposit Insurance Corporation's Processing of Freedom of Information Act Requests	February 26, 1999
EVAL-99-002	Management and Buyout of the River Ridge Branch Lease	March 26, 1999
EVAL-99-003	Division of Supervision Case Manager Program - Views of Those Who Are Implementing It	March 31, 1999

Appendix III

Statistical Information Related to OIG Completion of RTC Contractor Reviews

Before the Resolution Trust Corporation (RTC) sunset, the OIG agreed to assume responsibility for completing the reviews of RTC contractors initiated or planned by an RTC management oversight unit. OIG work included resolution of more than 1,000 recommendations in the backlog of unresolved reports transitioned to the FDIC on January 1, 1996, and 340 recommendations from reports generated by OIG Office of Quality Assurance and Oversight. The tables below present information related to these OIG activities as of March 31, 1999.

This information is not included with audit statistics in appendix I of this report because this work was initiated by RTC management, using agreed-upon procedures with independent public accountants, to meet management's need for contractor oversight and contract closeout.

Status of Management Actions on Recommendations Contained
in RTC Contractor Expiration Review Reports Issued Since
January 1, 1996

	Number of Recommendations	Questioned Costs Disallowed (\$ in millions)
Total Management Actions Required	340	\$11.44
Management Actions Completed:		
A. Prior to This Reporting Period	332	\$8.58
B. This Reporting Period	0	\$0.00
Subtotals of A and B	332	\$8.58
Management Actions Remaining to Be Completed as of March 31, 1999	8	\$2.86

Status of Management Actions on Recommendations
Contained in RTC Contractor Expiration Review Reports Issued
Before January 1, 1996^a

	Number of Recommendations	Questioned Costs Disallowed (\$ in millions)	Other Disallowed Costs (\$ in millions)
Total Management Actions Required	1,545 ^b	\$85.98 ^b	\$27.30
Management Actions Completed as of March 31, 1999	1,539	102.93	\$13.14
Management Actions Remaining to Be Completed as of March 31, 1999	6	\$1.52 ^c	\$0.00

^a Statistics provided by and derived from FDIC Office of Internal Control Management.

^b Total Management Actions Required as initially established pursuant to a joint OIG/management action plan. Management has identified retroactive adjustments not reflected in the total. We show those adjustments as Management Actions Completed.

^c The \$1.52 million in disallowed costs is considered in litigation. The Legal Division will be the final determinant for all items so categorized.



IN MEMORIAM

Ms. Bonnie Tucker

The OIG family was deeply saddened by the loss of Ms. Bonnie M. Tucker who passed away April 11, 1999. Bonnie's commitment, professionalism, and friendliness were an inspiration to all of us.

Bonnie joined the OIG staff in 1989 and worked with the Office of Audits. She worked on various types of audits that recently included the FDIC Financial Statement Audit; a material loss review; and audits of contractor performance, information systems, and personnel action processing. Prior to her service at the FDIC, Bonnie served as an auditor with the Defense Contract Audit Agency and as a staff accountant for PennWell

Publishing Company in Tulsa, Oklahoma. Bonnie earned a Bachelor of Science degree in Business Administration from the University of Tulsa.

Bonnie is survived by her sons David Tucker of Memphis, Tennessee; Daryl Tucker and wife, Tina, of Ochelata, Oklahoma; Kevin Tucker and wife, Patricia, of Sachse, Texas; daughter Susan Vaughn and husband, Darren, of Collinsville, Oklahoma; sister Dr. Betty Horn of North Haven, Connecticut; brothers Robert Beazer of Nashville, Tennessee; and John Gammon of Oakland, California; eight grandchildren; one niece; and three nephews. Bonnie's pleasant demeanor and positive outlook will be missed.

For additional copies or information,

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