

Office of Inspector General



Office of Audits
Report No. AUD-10-007

**The FDIC's Proforma Process for Corus
Bank, N.A.**

September 2010



Why We Did the Audit

A key aspect of the FDIC mission is to plan for and efficiently manage the resolution of failing FDIC insured depository institutions in order to maintain public confidence and stability in our financial system. The FDIC's Division of Resolutions and Receiverships (DRR) has primary responsibility for resolving a failed financial institution and managing the resulting receivership after the FDIC is appointed receiver. The proforma closing process is designed to produce a reasonably accurate financial statement for the failed institution and separate financial statements that reflect assets and liabilities passed to the assuming institution, if any, or retained by the FDIC receivership for later disposition. The FDIC relies on the governing Purchase and Assumption (P&A) agreement with an assuming institution as the basis for allocating the assets and liabilities between the assuming institution and receivership, and the proforma financial statements are key to ensuring this allocation is properly completed.

Corus Bank, N.A. (Corus Bank) was closed by the Comptroller of the Currency on September 11, 2009, and the FDIC was appointed receiver. To protect the depositors, the FDIC entered into a P&A agreement with MB Financial Bank, National Association, Chicago, Illinois (hereafter, MB Financial Bank), to purchase some assets and assume all of the deposits of Corus Bank. As of the date of closing, Corus Bank had estimated total assets of approximately \$7.4 billion and total deposits of approximately \$6.6 billion. The bank also had 25 subsidiaries designed to hold real estate acquired in foreclosure. These investments were valued at \$399.6 million.

The FDIC's Office of Inspector General (OIG) contracted with Reed & Associates, CPAs, Inc. (Reed) to conduct an audit of the proforma closing process for Corus Bank.

The objective of this performance audit was to assess the proforma closing process for Corus Bank, including the reliability of the related proforma financial statements, and compliance with applicable provisions of the P&A agreement with MB Financial Bank.

Background

Completion of the proforma closing process is a key objective of a bank closing weekend. To prepare the proforma financial statements, staff involved in the proforma process are responsible for reconciling and confirming the general ledger accounts of the failed institution and adjusting, if necessary, the account balances. This process is controlled through the use of proforma jackets – files that contain support for the closed institution's final account balances. Subsidiaries of failed banks are separate legal entities that can remain going concerns and are subject to proforma procedures for all balance sheet accounts. DRR's *Proforma Training Manual* (PTM) is the authoritative reference for the accumulation and presentation of DRR proforma procedures and serves as guidance for the proforma process.

Audit Results

Overall, Reed concluded that the FDIC's DRR had implemented a proforma closing process that was generally adequate to achieve the objective of producing reasonably reliable proforma financial statements. However, policies and procedures governing the proforma closing process needed updates and improvement. Specifically, the PTM had not been updated since 2004 although significant organizational and system changes have occurred. In addition, Reed noted several key areas where the

PTM did not reflect the actual proforma process that DRR used at Corus Bank, such as the procedures for confirming and adjusting subsidiary balances, review and approval of confirmed subsidiary balances prior to the creation of the proforma financial statements, and guidance for closings involving P&A agreements. Without current and complete policies and procedures, the FDIC lacks assurance that the proforma closing process is being implemented consistently in accordance with management's direction and produces reliable financial information.

Reed determined that the proforma financial statements for Corus Bank, the assuming institution, and the receivership were generally reliable. Specifically, DRR had established and implemented key controls in the Corus Bank closing that were sufficient to produce reasonably reliable proforma financial statements and ensure compliance with the terms of the P&A agreement with MB Financial Bank. However, the reliability of the proforma financial statements could be improved by implementing more effective monitoring controls. The Government Accountability Office's *Standards for Internal Control in the Federal Government* state that internal control should be designed to assure that ongoing monitoring occurs in the course of normal operations. Monitoring controls include regular management and supervisory activities. Reed identified exceptions regarding adjustments to subsidiary accounts and supporting information in, and supervisory review of, proforma jackets that had not been identified by monitoring controls. Existing monitoring controls, while generally adequate, did not provide for sufficient continuous monitoring and independent review and feedback to DRR management on the proforma process. Based on the sample of proforma jackets Reed tested, the cumulative effect of the exceptions noted was not material to the proforma financial statements; however, the presence of misstatements and the lack of supporting documentation decreases the reliability of proforma financial information and increases the risk that material misstatements may occur and not be detected.

Recommendations and Management Comments

The report recommends that DRR (1) promptly complete the update of the PTM, including guidance related to subsidiaries and closings involving P&A agreements, and (2) strengthen monitoring controls over the process for preparation of proforma financial statements to ensure that information in the statements is reliable, complete, and current.

Management concurred with our recommendations and is taking responsive action.



DATE: September 23, 2010

MEMORANDUM TO: Mitchell L. Glassman
Director, Division of Resolutions and Receiverships

FROM: */Signed/*
Russell A. Rau
Assistant Inspector General for Audits

SUBJECT: *The FDIC's Proforma Process for Corus Bank, N.A.*
(Report No. AUD-10-007)

The subject final report is provided for your information and use. Please refer to the Executive Summary, included in the report, for the overall audit results. Our evaluation of your response is incorporated into the body of the report. Your comments on a draft of this report were responsive to the recommendations. The recommendations will remain open for reporting purposes until we have determined that agreed-to corrective actions have been completed and are responsive.

If you have questions concerning the report, please contact me at (703) 562-6350, or Lisa Conner, Audit Manager, at (972) 761-2297. We appreciate the courtesies extended to the audit staff.

Attachment

cc: James H. Angel, Jr., OERM

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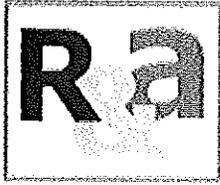
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Final Report

*Audit of the FDIC's Proforma Process for
Corus Bank, N.A.*

REED&associates
CPAs and Consultants

*8700 Centreville Road
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REED & associates

CPAs and Consultants

Member: American Institute of CPAs • Virginia Society of CPAs • Connecticut Society of CPAs

September 22, 2010

Honorable Jon T. Rymer
Inspector General
Federal Deposit Insurance Corporation
3501 Fairfax Drive
Arlington, VA 22226

RE: Transmittal of Results for the FDIC OIG Task Order for Resolutions and Receiverships Audit Services in Support of the Inspector General Audit of the FDIC's Proforma Process for Corus Bank, N.A.

Dear Mr. Rymer:

This letter is to acknowledge delivery of our final report (Attachment) representing the results of our performance audit of the FDIC's proforma process as designed and as implemented at the closing of Corus Bank, N.A. (Corus Bank) in accordance with Task Assignment Number 0001 dated March 15, 2010.

The objective of the audit was to assess the proforma closing process for Corus Bank, including assessment of the reliability of the related proforma financial statements, and compliance with applicable provisions of the Purchase and Assumption (P&A) agreement with MB Financial Bank, N.A. As part of our work, we interviewed key officials with responsibility for managing and implementing the proforma process. We also reviewed relevant FDIC policies, procedures, guidelines, plans, and reports pertaining to the proforma process.

We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States and with audit policies and procedures established by the FDIC OIG. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Additionally, we used the Government Accountability Office's (GAO) November 1999 publication, *Standards for Internal Control in the Federal Government*, as a guide for performing the audit and FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*, dated September 25, 2006, which states that the GAO standards define the minimum acceptable level of quality for internal control and provide the basis against which internal controls should be evaluated at the FDIC.

This performance audit did not constitute an audit of financial statements in accordance with GAGAS. We caution that projecting the results of our audit to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate. The information included in this report was obtained from the FDIC on or before June 22, 2010. We have no obligation to update our report or to revise the information contained therein to reflect events and transactions occurring subsequent to June 22, 2010.

This report is intended for use by the FDIC.

Sincerely,

A handwritten signature in cursive script that reads "Reed & Associates". The signature is written in black ink and is positioned above the printed name of the firm.

Reed & Associates, CPAs, Inc.

Attachment

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EXECUTIVE SUMMARY

The Federal Deposit Insurance Corporation (FDIC), Office of Inspector General (OIG) contracted with Reed & Associates, CPAs, Inc. (Reed) to conduct a performance audit of the proforma closing process designed by the FDIC Division of Resolutions and Receiverships (DRR) and implemented during the closing of Corus Bank, N. A. (Corus Bank), Chicago, Illinois. Corus Bank was closed on September 11, 2009 by the Office of the Comptroller of the Currency, which appointed the FDIC as receiver. To protect the depositors, the FDIC entered into a Purchase and Assumption Agreement (P&A agreement) with MB Financial Bank, National Association, Chicago, Illinois (hereafter, MB Financial—the assuming institution), to assume all of the deposits of Corus Bank. The primary focus of the proforma closing process is to produce reasonably reliable financial statements, through the date of closing of the failed financial institution, that serve as a basis for the opening entries of the financial statements of both the assuming institution and the FDIC as receiver.¹

The objective of the audit was to assess the proforma closing process for Corus Bank, including the reliability of the related proforma financial statements, and compliance with applicable provisions of the P&A agreement with MB Financial.

As part of our work, we interviewed key FDIC officials responsible for managing and monitoring the proforma closing process, including personnel at the office of DRR's National Field Operations Branch in Dallas, Texas. We reviewed relevant FDIC policies, procedures, guidelines, and plans related to the performance of the proforma closing process for Corus Bank. We assessed the design of the proforma closing process by identifying key controls established by the FDIC, testing those controls, and concluding on their effectiveness. We also assessed whether reasonably reliable financial statements were created for the failed financial institution, the receivership, and the assuming institution by sampling proforma jackets.² We verified compliance with the P&A agreement in regard to the transfer of assets and liabilities to the assuming institution or receivership. A detailed discussion of our objective, scope, and methodology is in Appendix A of this report.

The primary criteria for the performance audit are the FDIC *Proforma Training Manual* (PTM) and the P&A agreement.

We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States and with audit policies and procedures established by the FDIC OIG. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Additionally, we

¹ When an insured institution fails, the FDIC is appointed receiver and establishes a receivership. In its receivership capacity, the FDIC assumes responsibility for efficiently recovering the maximum amount possible from the disposition of the receivership's assets and the pursuit of the receivership's claims. Funds collected from the sale of assets and the dispositions of valid claims are distributed to the receivership's creditors in accordance with the priorities set by law.

² Proforma jackets are files the FDIC uses to document and maintain the confirmed balance and relevant support of every proforma account assigned to the failed financial institution.

used the Government Accountability Office's (GAO) November 1999 publication, *Standards for Internal Control in the Federal Government*, as a guide for performing the audit and FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*, dated September 25, 2006, which states that the GAO standards define the minimum acceptable level of quality for internal control and provide the basis against which internal controls should be evaluated at the FDIC.

We concluded that the FDIC's DRR had implemented a proforma closing process that was generally adequate to achieve the objective of producing reasonably reliable proforma financial statements. However, policies and procedures governing the proforma closing process needed updates and improvement. Specifically, the PTM had not been updated since 2004 even though proforma responsibilities had transitioned from the FDIC's Division of Finance (DOF) to the DRR and new systems had been fielded. In addition, we noted several key areas where the PTM did not reflect the actual proforma process that was used by DRR at Corus Bank such as the procedures for confirming and adjusting subsidiary balances, review and approval of confirmed subsidiary balances prior to the creation of the proforma financial statements, and guidance for closings involving P&A agreements. Absent current and complete policies and procedures, the FDIC lacks assurance that the proforma closing process is being implemented consistently in accordance with management's direction and produces reliable financial information.

We determined that the proforma financial statements for Corus Bank, the assuming institution, and the receivership were generally reliable. Specifically, DRR established and implemented key controls in the Corus Bank closing to produce reliable proforma financial statements and ensure compliance with the terms of the P&A agreement with MB Financial. However, the reliability of these proforma financial statements could be improved by implementing more effective monitoring controls. The GAO's *Standards for Internal Control in the Federal Government* state that internal control should be designed to assure that ongoing monitoring occurs in the course of normal operations. Monitoring controls include regular management and supervisory activities. We identified exceptions regarding adjustments to subsidiary accounts and supporting information in, and supervisory review of, proforma jackets that had not been identified by monitoring controls. Existing monitoring controls, while generally adequate, did not provide for sufficient continuous monitoring and independent review and feedback to DRR management on the proforma process. Based on the sample of proforma jackets we tested, the cumulative effect of the exceptions noted was not material to the proforma financial statements; however, the presence of the exceptions and the lack of supporting documentation and supervisory review decrease the reliability of proforma financial information and increase the risk that material misstatements may occur and not be detected.

This performance audit did not constitute an audit of financial statements in accordance with GAGAS. Reed cautions that projecting the results of our audit to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate. The information included in this report was obtained from the FDIC on or before June 22, 2010. We have no obligation to update our report or to revise the information contained therein to reflect events and transactions occurring subsequent to June 22, 2010.

BACKGROUND

After no bank failures in 2005 and 2006 and only three in 2007, the FDIC resolved 25 banks in 2008, 140 failures in 2009, and 83 failures through June 22, 2010. This significant increase in the number of failures, the size and complexity of failing institutions, and the FDIC's anticipation that additional failures will occur have resulted in a doubling of the FDIC operating budget, opening of three temporary satellite offices, and dramatic increases in the number of staff and contractors needed to resolve the failed institutions and manage the receiverships, including disposing of receivership assets.

The FDIC's DRR has primary responsibility for resolving a failed financial institution and managing the resulting receivership. The DRR is headquartered in Washington D.C., with an office in Dallas, Texas, and satellite offices in Irvine, California; Jacksonville, Florida; and Chicago, Illinois. DRR also conducts operations at failed financial institution sites and contractor locations throughout the country.

Proforma Closing Process

Completion of the proforma function is a key objective of the closing weekend, which involves controlling, inventorying, and balancing the books of the failed institution. According to the PTM, the primary focus of proforma is to produce a final Statement of Condition (i.e., financial statement) that reasonably reflects the financial condition of the failed financial institution and separate financial statements that reflect assets and liabilities passed to the acquirer (i.e., the assuming institution) or retained by the receiver based on the terms of the governing P&A agreement. DRR assigns a proforma team to the closing, consisting of a Financial Manager, Proforma Team Leader, and Proforma Support Staff. The Financial Manager is responsible for oversight of the financial closing process. The Proforma Team Leader directs the proforma process for the failed institution. Proforma Support Staff are responsible for reconciling and confirming the general ledger accounts of the failed institution and adjusting, if necessary, the account balances.

This confirmation process is controlled through the use of proforma jackets – files that contain the documentation to support the closed institution's final statement of condition. One or more jackets are prepared for each general ledger account. DRR's reconciliation of the last general ledger balance with the bank's final closing balance is documented on the outside of the jacket. The proforma team includes a summary memorandum in each proforma jacket, indicating the general ledger balances of the failed financial institution, the definition and purpose of each general ledger account, procedures performed, and any proposed adjusting entries. Once each account balance has been confirmed, the P&A agreement dictates whether the account will be transferred in total or in part to the acquiring institution or the receivership. DRR uses information systems such as Proforma for Windows to assist in the proforma process and help generate proforma financial statements.

Corus Bank was a wholly-owned subsidiary of Corus Bankshares, Inc., a Securities and Exchange Commission registrant. Corus Bank had total assets of approximately \$7.4 billion and total deposits of approximately \$6.6 billion when it closed. Corus Bank established 25

subsidiaries to control real estate acquired in foreclosure from its commercial lending activities. Corus Bank's general ledger indicates that most of the subsidiaries were established to hold real estate from a single project. As of the date of closing, Corus Bank valued the investments in subsidiaries at \$399.6 million.

The Corus Bank resolution involved a P&A agreement with MB Financial for the acquisition of all of Corus Bank's deposits and approximately \$3 billion of Corus Bank's assets, which were mainly cash and marketable securities. The remaining assets, including the investments in the subsidiaries, were placed in receivership for later disposition by the FDIC. In the case of Corus Bank, the proforma team had the responsibility of reconciling the bank's general ledger balance sheet accounts to meet the requirements of the governing P&A agreement with MB Financial. According to the Strategic Resolution Plan prepared by DRR, the proforma team for Corus Bank consisted of 1 Financial Manager, 1 Team Leader, 1 Subsidiary Lead, 2 support personnel, 20 contractors at the bank level, and 2 contractors for the subsidiaries. During the proforma process, the proforma team obtained the electronic general ledger records of Corus Bank, as of the date of closing, through assistance from the FDIC's Business Information Systems team and Corus Bank's service provider, Metavante, and reviewed, confirmed, and adjusted (if necessary) the account balances through the date of closing.

RESULTS OF AUDIT

FINDING A: Proforma Closing Process Policies and Procedures

The FDIC's DRR had implemented a proforma closing process that was generally adequate to achieve the objective of producing reasonably reliable proforma financial statements. However, policies and procedures governing the proforma closing process needed updates and improvement. Specifically, the PTM had not been updated since 2004. DRR officials indicated that the existing manual is saved electronically in a format that cannot be edited, and addendums or amendments have not been officially documented or incorporated into the manual. The current version of the PTM was prepared by the FDIC's DOF before the proforma closing responsibilities were assumed by DRR and includes outdated references to DOF's role and responsibilities for the process. In addition, the PTM does not reflect new systems that have been fielded. For example, the PTM identifies outdated general ledger account numbers rather than account numbers for the Chart of Accounts for the New Financial Environment, the FDIC's current general ledger accounting system.³ During the audit, DRR told us it has begun documenting changes to policies and updating procedures, but this documentation was not available or complete for our review. Further, in December 2009, DRR issued an update to its *Failed Financial Institution Closing Manual* that references the PTM for a detailed discussion of the tasks performed by the proforma closing team, thus emphasizing the importance of the PTM being current and complete.

In addition, we noted several key areas where the PTM did not reflect the actual proforma process that was used by the DRR at Corus Bank. For example, the PTM did not include (1) procedures for confirming and adjusting subsidiary balances and the review and approval of confirmed subsidiary balances prior to the creation of the proforma financial statements, or (2) diagrams and instructions for closings involving P&A agreements. GAO's *Standards for Internal Control in the Federal Government* state that policies and procedures are an integral part of an organization's operations, and they are a key control for ensuring that management's directives are carried out. GAO standards further state that internal control needs to be clearly documented. In addition, Circular 4010.3, *FDIC Enterprise Risk Management System*, requires divisions and offices to maintain current policies and procedures. Without current and complete policies and procedures, the FDIC lacks assurance that the proforma closing process is being implemented consistently in accordance with management's direction and produces reliable financial information. Finding B further discusses the reliability of the financial statements produced as a result of the proforma closing process at Corus Bank.

Confirming and Adjusting Subsidiary Balances: While the FDIC is responsible for resolving the failed financial institution, it is important to note that the failed institution may have subsidiaries that remain going concerns. The PTM states that a mini-proforma process will be completed for all balance sheet accounts of every subsidiary. However, detailed procedures addressing the proforma process for subsidiaries are not included in the PTM. This resulted in inconsistencies in the manner in which the proforma closing process was performed for the 25 sampled subsidiaries of Corus Bank and the process as documented in the PTM, which is aimed

³ Although not covered in the scope of this audit, we noted that the FDIC's *Subsidiary Accounting Manual* also reflects outdated system and general ledger account references.

at confirming balances at the bank level rather than the subsidiary level. We identified the following procedures that were not documented in, or performed inconsistently with, the PTM.

1. The FDIC policy, as documented in the PTM appendices, is to report on subsidiaries at the bank level, using the equity method of accounting for investments. In order to fulfill this requirement, the PTM generally requires separate financial statements for each subsidiary because each is a separate legal entity. The confirmed equity balance for the subsidiaries is used to account for the overall investment in subsidiaries. However, we determined that the documented procedures for implementing the policy were incomplete and resulted in proforma account balances that contained misstatements. Specifically, the equity method of accounting for investments precludes reporting initial negative balances for investments in subsidiaries.⁴ However, the PTM does not include procedures on how to adjust negative balances for investments in subsidiaries and how to report the resulting confirmed balance. At the date of closing, Corus Bank had negative balances in investments in subsidiaries accounts that were adjusted during the proforma process. We identified one such negative balance of \$19,102,639.62 that was not properly adjusted in accordance with the FDIC policy (i.e., equity method of accounting). The confirmed balance was therefore misstated on the Corus Bank proforma financial statements as well as the receivership proforma financial statements, impacting the reliability of the statements. The impact of this misstatement on the reliability of the proforma financial statements is addressed in Finding B.

2. The PTM, Chapter 2.1.A, states, “The primary focus of Proforma is to produce a balance sheet that reflects a reasonably accurate financial statement of the Failed Financial Institution through the date of closing.” The PTM does not address whether account balances for the failed institution’s subsidiaries, which are separate entities, should be confirmed through the date of closing or be treated differently, from an accounting perspective, than the failed bank’s accounts. Based on our sample of 25 subsidiaries of Corus Bank, we determined that the confirmation date for 2 subsidiary account balances, Prepaid Insurance and Taxes Payable, was not always September 11, 2009, the closing date for Corus Bank. Often, August 31, 2009 was used as the confirmation date. DRR personnel told us that subsidiary prepaid and payable balances are confirmed at a date other than the closing date to maintain consistency with the subsidiary’s general ledger. However, the use of the August 31, 2009 date for confirmation of certain subsidiary account balances is inconsistent with both the PTM guidance for the failed financial institution as well as the date other subsidiaries used for confirmation purposes such as the Corus Bank closing date or September 30, 2009. We found no documented justification and approval for the use of other than the closing date for the subsidiary accounts. Reporting balances as confirmed that are based on different closing or cut-off dates reduces the reliability of the resulting proforma financial statements.

Table 1 contains examples of the effect of confirming subsidiary account balances on dates other than the closing date.

⁴ Investment in subsidiary balances may become negative due to operating expenses that are incurred to operate and manage the subsidiary.

Table 1 – Examples of Inconsistent Use of the Closing Date to Confirm Balances

Account Name	Amount of Difference Over/(Understated)	Confirmed Balance	Financial Statements Affected	Notes
Prepaid Insurance	\$16,270.12	\$577,541.69	Receivership & Failed Institution	Prepaid Assets were confirmed as of August 31, 2009, rather than the closing date of September 11, 2009.
Prepaid Insurance	(\$2,835.25)	\$46,463.43	Receivership & Failed Institution	One Prepaid Asset was confirmed as of September 30, 2009, rather than the closing date of September 11, 2009.
Taxes Payable	(\$112,332.49)	\$1,664,760.88	Receivership & Failed Institution	Taxes Payable were confirmed as of August 31, 2009, rather than the closing date of September 11, 2009.

Source: Reed & Associates analysis of confirmed balances obtained from DRR proforma jackets and review of the jackets sampled.

3. The PTM, Chapter 4.5.11, states that assets and liabilities retained by the FDIC, as the receiver, are adjusted from an accrual basis to a cash basis of accounting. The PTM indicates certain accrual-based accounts, such as prepaid and payable accounts maintained by the institution prior to failure in accordance with Generally Accepted Accounting Principles (GAAP), are written off to adjust the accounts to a cash basis. These procedures are applicable at the bank level. However, the PTM does not identify how account balances for subsidiaries of the failed institution should be adjusted or the basis of accounting to be used. Based on a sample of the 25 subsidiaries, we determined that subsidiary balances for Prepaid Insurance and Taxes Payable were, at times, not adjusted or were adjusted by varying amounts up to the total balance in the account. We did not find sufficient documented justification in the proforma jackets for the adjustments made to these subsidiary accounts and therefore could not determine if the adjustments were proper. Without guidance in the PTM for determining the amount of adjustments to be made to subsidiary account balances and the related documentation required to confirm the account balances, the consistency and resulting reliability of financial information could be adversely impacted.

Defining and Documenting Proforma Review and Approval Procedures for Subsidiary Accounts: The PTM, Chapter 2.1.A, states that all proforma jackets are to be reviewed by the DOF Financial Manager and the DOF Proforma Team Leader. As previously discussed, the PTM has not been updated to reflect the transition of these roles and responsibilities to DRR. Additionally, Chapter 2.2.D of the PTM states that all tax-related jackets are to be prepared by a Tax Specialist. The PTM does not contain specific procedures for review and approval of subsidiary proforma jackets or preparation of the tax-related subsidiary jackets. The subsidiary proforma jackets for Corus Bank were not reviewed by the cognizant Financial Manager or Proforma Team Leader, and tax-related jackets of subsidiaries were not prepared by a Tax Specialist. DRR personnel informed us that, at the Corus Bank closing, DRR assigned an FDIC employee as the Subsidiary Team Leader to sign off as the Financial Manager and a contractor to sign off as the Proforma Team Leader. DRR also reported that it did not require a Tax Specialist to prepare tax-related jackets of subsidiaries at the Corus Bank closing. Preparation, review, and approval of subsidiary proforma jackets are critical to the reliability of financial information used in the closing process and should be performed by properly designated officials. Completion of these activities consistently and in accordance with FDIC management's direction is facilitated by well-documented policies and procedures in the PTM.

Documenting the End-to-End Closing Process for P&A Agreement Closings: The PTM includes end-to-end flowcharts depicting the proforma closing process. We determined that the flowcharts are specific to a closing involving a payout to insured depositors and that DRR has not documented end-to-end flowcharts for a bank closing that involves a P&A agreement. There are considerable differences in the proforma process for a P&A agreement as compared to the process for a deposit payout, most notably in that there is an acquiring institution requiring a split of assets and liabilities rather than all balances going to the receivership. The Corus Bank closing included a P&A agreement with MB Financial. In addition, P&A agreements are commonly used in the resolution of failed financial institutions.⁵ End-to-end process diagrams for the P&A agreement closing can help ensure consistent and effective implementation of the proforma closing process and the reliability of related financial information.

Recommendation:

1. We recommend that the Director, DRR, promptly complete the update of the PTM, including guidance related to confirming and adjusting subsidiary balances, defining and documenting proforma review and approval procedures for subsidiary accounts, and documenting the end-to-end closing process for P&A agreement closings.

FINDING B: Monitoring Controls over the Reliability of Proforma Financial Statements

DRR established and implemented key controls in the Corus Bank closing that were sufficient to produce reasonably reliable proforma financial statements for the failed financial institution, the receivership, and the assuming institution and ensure compliance with the terms of the P&A agreement with MB Financial. However, we determined that the reliability of these proforma financial statements could be improved by implementing more effective monitoring controls. The GAO's *Standards for Internal Control in the Federal Government* state that internal control should be designed to assure that ongoing monitoring occurs in the course of normal operations.

⁵ As of June 22, 2010, 83 banks failed - 5 were resolved with deposit payouts and the remainder through various P&A agreements.

Monitoring controls include regular management and supervisory activities.⁶ Importantly, monitoring should assess the quality of performance, in this case, of the proforma process. We identified adjustments for subsidiary accounts that were not completed⁷ and proforma jackets that were incomplete because of a lack of supporting information.⁸ We were unable to find evidence of supervisory review of some jackets⁹ and identified jackets that contained exceptions even though the jackets had been reviewed. Existing monitoring controls such as supervisory reviews, while generally adequate, did not provide for sufficient continuous monitoring or independent review and feedback to DRR management on the proforma process in order to minimize exceptions to proforma policies and procedures. Such monitoring is particularly important where contractors are used such as in the case of the Corus Bank proforma closing process. Based on the sample of proforma jackets we tested, the cumulative effect of the exceptions noted was not material to the proforma financial statements; however, the presence of misstatements and the lack of supporting documentation decrease the reliability of proforma financial information and increase the risk that material misstatements may occur and not be detected. Given the estimated asset size of Corus Bank as of the date of failure (over \$7 billion), additional monitoring controls could also help address the risk associated with high-dollar value misstatements that do not meet materiality thresholds but are nonetheless significant.

Making Account Adjustments: On the first day of the bank closing, DRR obtains the failed institution's general ledger. Adjustments are made to the balances reported by the failed institution during the proforma process to assure that confirmed balances are accurate. As detailed in Table 2, below, we identified the following adjustments to subsidiary accounts that were not made on the applicable proforma financial statements.

⁶ GAGAS refer to internal control guidance contained in the *Internal Control Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO framework includes a monitoring component. In 2008, the COSO issued *Guidance on Monitoring Internal Control Systems* that discusses monitoring controls including: (1) periodic evaluation and testing of controls by internal audit; (2) continuous monitoring programs built into information systems; (3) analysis of, and appropriate follow-up on, operating reports or metrics that might identify anomalies indicative of a control failure; and (4) supervisory reviews of controls, such as reconciliation reviews as a normal part of processing.

⁷ The PTM states that failed institution balances are to be identified, confirmed, and adjusted, as needed, in order to arrive at an accurate proforma account balance.

⁸ The PTM states that proforma jackets should contain all pertinent information to support the balance being confirmed.

⁹ The PTM states that all proforma jackets are to be reviewed by the DOF Financial Manager and the DOF Proforma Team Leader.

Table 2 – Adjustments Not Completed

Account Name	Amount of Error	Confirmed Balance	Financial Statement Affected	Notes
Investment in Laketown Wharf	-\$19,102,640.62	-\$19,102,639.62	Receivership & Failed Institution	The balance should have been adjusted to \$1.00 in accordance with guidance to report subsidiaries using the equity method of accounting, which does not allow negative investment balances. (Refer to Note 1 below)
Cash (Refer to Note 2 below)	-\$103,642.64	\$3,142,324.46	Receivership & Failed Institution	Checks that were dispersed but not recorded on the general ledger were not adjusted during the proforma process.
Cash (Refer to Note 3 below)	\$97,494.76	\$14,589,947.91	Receivership & Failed Institution	Deposits-in-transit at the date of closing were not adjusted during the proforma process.
Cash (Refer to Note 4 below)	\$5,446.61	\$3,142,324.46	Receivership & Failed Institution	Voided checks, journal entry reversals, and security deposit transfers were identified as unrecorded, but no proforma adjustment was identified.
Loans	\$25,557.52	\$20,796,548.80	Receivership & Assuming Institution	An adjustment to a loan balance was transferred to the assuming institution rather than the receivership.

Source: Reed & Associates analysis of confirmed subsidiary account balances and review of the jackets sampled.

Notes:

1. Refer to the “Confirming Balances for Investments” section in Finding A for greater detail on why this adjustment should have occurred. The FDIC adjusts these balances to \$1.00 for tracking purposes.
2. This error was identified in one subsidiary cash account.
3. This error was identified in two subsidiary cash accounts.
4. This error was identified in one subsidiary cash account.

As discussed in Finding A, additional policies and procedures for making adjustments as well as for reviewing and approving confirmed balances are needed to help ensure that the proforma closing process results in reliable financial information. However, additional monitoring controls such as independent review of selected proforma jackets, and high-dollar value transactions in particular, would aid in assessing and enhancing the overall quality of the proforma process and provide DRR with the ability to identify misstatements of this magnitude.

Documented Support in Proforma Jackets: The PTM, Chapter 4.5.1.1, states that each proforma jacket is to contain all pertinent information to support the balance being confirmed. However, the PTM did not sufficiently define the documentation to be included in proforma jackets to support adjustments and confirmations. We identified proforma jackets that did not contain adequate support for either an adjustment or the confirmed balance. We were able to obtain documentation to support the reported adjustments and confirmed balances, but that additional information had to be obtained by DRR in response to our audit. Table 3, which follows, summarizes the types of support lacking in the jackets we sampled.

Table 3 – Support for Confirmed Balances

Account Name	Unsupported Amount	Confirmed Balance	Financial Statement Affected	Notes
Cash	\$2,253,062.65	\$2,253,062.65	Receivership & Failed Institution	The bank statement was not obtained to confirm existence of the bank account and reported cash balance that was reported as confirmed during proforma. See Note 1.
Cash	\$482,599.68	\$482,599.68	Receivership & Failed Institution	The bank statement was not obtained to confirm existence of the bank account and reported cash balance that was reported as confirmed during proforma. See Note 1.
Cash	\$9,666.78	\$16,477,898.05	Failed Institution & Assuming Institution	There was no supporting documentation included in jacket 3.0, "Bank of America," to verify the reasonableness or accuracy of this adjustment.
DIP Financing – Due to Bank (Refer to Note 3 below)	\$40,897.20	\$16,024,586.47	Receivership & Failed Institution	There was an invoice that the DRR confirmed in the amount of \$30.46 (current charges on the invoice), but the total invoice was for \$40,927.66 (included outstanding charges). Supporting documentation to support payment of the outstanding charges was not available during our review.
Loans	\$535,032,223.96	\$3,737,508,849.93	Receivership & Failed Institution	Corus charged off certain loans during the "window period" (the time period of charge-offs that the FDIC specifically reviews during the proforma closing process) that the FDIC determined should not be charged off, but the "window period" was not documented in the proforma jacket. See Note 2.
Loans	\$16,280,407.20	\$401,573,199.76	All	Charge-off loans made by Corus, during the "window period," were adjusted by DRR during proforma. The adjustments were not supported by documentation in the proforma jacket. See Note 2.
Other Real Estate Owned (OREO)	\$1,008,046.70	\$130,492,051.66	Receivership & Failed Institution	Three subsidiary OREO accounts, (Tao Sawgrass, 8255 Las Vegas, and Aria Marketing) had asset sales in the month of closing but did not contain the cost-basis support for those assets needed to verify the gain or loss on the sale.
Retained Earnings	\$5,521,414.06	\$22,876,135.82	Receivership & Failed Institution	The beginning proforma balance of retained earnings could not be verified for two subsidiaries (Tao Sawgrass and Tradewinds Marketing) because one page of each subsidiary's trial balance was not included in the

Account Name	Unsupported Amount	Confirmed Balance	Financial Statement Affected	Notes
				respective jacket, which would have documented the balance reported by the failed institution prior to closing.

Source: Reed & Associates analysis of confirmed balances from DRR proforma jackets and review of the jackets sampled.

Notes:

1. This bank account was reported on one of Corus Bank’s subsidiaries at this amount. The bank account was managed by the ORE’s property manager, and DRR reported that it was unable to obtain the bank statements from the ORE property manager. The DRR did not consider the balance to be material enough to delay the confirmation of the subsidiary balance. The cash, as part of the subsidiary, was being transferred to the receivership.
2. The FDIC identifies a charge-off period where it reviews all loans that the failed financial institution charged off during this period. The “Unsupported Amount” above represents charge-off loans that the FDIC reviewed and determined should not have been charged off. We were unable to determine the charge-off period from the support within the jacket, but we were able to confirm this period during our audit through additional discussion and evaluation of documentation outside the proforma jacket.
3. DIP Financing – Due to Bank is a “debtor-in-possession” liability account used to report invoices that Corus Bank paid on behalf of the subsidiary and the subsidiary is responsible for reimbursing Corus Bank.

As noted above, the PTM, Chapter 4.5.1.1, states that all pertinent information, to support confirmed balances, is to be included in proforma jackets. In addition, monitoring controls should allow DRR to identify jackets that do not contain adequate documentation prior to reporting the balance as confirmed. Supporting information in the proforma jackets helps to ensure the proper confirmation of account balances and reliability of the information produced in the course of the proforma closing process.

Documentation of Supervisory Review: The PTM, Chapter 2.1.A, states that each proforma jacket should be reviewed by the Financial Manager and the Proforma Team Leader assigned to the bank closing to assure that jackets are prepared consistently and accurately. We identified the following instances where monitoring procedures had not been implemented as documented in the PTM.¹⁰

Table 4 – Evidence of Review Not Documented

Account Name	Bank or Subsidiary Jacket	Confirmed Balance	Notes
Investment in Tradewinds Marketing	Subsidiary	\$8,127,582.80	Four jackets for a subsidiary did not contain evidence of being electronically approved in Proforma for Windows. One of the four jackets did not contain the physical signature of the Subsidiary Financial Manager.
Investment in Tradewinds Marketing	Bank	\$8,127,582.80	The Team Leader and Financial Manager approved this jacket in Proforma for Windows without all proforma jackets being approved for the subsidiary.
Investment in	Subsidiary	\$22,402,719.43	One jacket for a subsidiary did not contain evidence of

¹⁰ In accordance with the PTM guidance, subsidiary proforma jackets should be reviewed by a contractor assigned as the subsidiary Team Leader and by an FDIC employee assigned as the subsidiary Financial Manager.

Account Name	Bank or Subsidiary Jacket	Confirmed Balance	Notes
Aventine Marketing			being electronically approved in Proforma for Windows.
Investment in Aventine Marketing	Bank	\$22,402,719.43	The Team Leader and Financial Manager approved this jacket in Proforma for Windows without all proforma jackets being approved for the subsidiary.
Investment in Aria Marketing	Subsidiary	\$33,500,425.15	We reviewed the physical sign-off of the proforma jacket for this subsidiary and identified one jacket that did not contain evidence of approval by the Subsidiary Financial Manager.
Investment in Aria Marketing	Bank	\$33,500,425.15	The Team Leader and Financial Manager approved this jacket in Proforma for Windows without all proforma jackets being approved for the subsidiary.
Investment in Laketown Wharf Marketing	Subsidiary	-\$19,102,639.62	Two jackets for the subsidiary did not contain evidence of being electronically approved in Proforma for Windows. We reviewed the physical sign-off of the jackets and determined that two jackets also did not contain evidence of the Subsidiary Financial Manager's physical sign-off.
Investment in Laketown Wharf Marketing	Bank	-\$19,102,639.62	The Team Leader and Financial Manager approved this jacket in Proforma for Windows without all proforma jackets being approved for the subsidiary.
Investment in Royal Palm Mezz Lending Corp	Subsidiary	-\$0.05	One jacket for the subsidiary did not contain evidence of being electronically approved in Proforma for Windows.
Investment in Royal Palm Mezz Lending Corp	Bank	-\$0.05	The Team Leader and Financial Manager approved this jacket in Proforma for Windows without all proforma jackets being approved for the subsidiary.
OREO – Real Estate Taxes Payable (Tao Sawgrass)	Subsidiary	\$91,785.50	This tax-related jacket did not contain evidence of being reviewed or approved by a Tax Specialist.
OREO – Real Estate Taxes Payable (Glencoe Marketing)	Subsidiary	\$3,403.51	This tax-related jacket did not contain evidence of being reviewed or approved by a Tax Specialist.
OREO – Real Estate Taxes Payable (LVB Ogden Marketing)	Subsidiary	\$0.00	This tax-related jacket did not contain evidence of being reviewed or approved by a Tax Specialist before the payable was written off.

Source: Reed & Associates analysis of confirmed balances and review of the jackets sampled.

The PTM's requirements for the Financial Manager and Team Leader to document review and approval for all confirmed balances were not consistently implemented during the proforma process at Corus Bank with respect to each of the investments in the subsidiaries listed above. Based on our sample of the 25 subsidiaries, we determined that the confirmed balance in the bank-level proforma financial statements was approved in the Proforma for Windows system even though the underlying investment in the subsidiary balance contained possible unrecorded adjustments and unconfirmed balances. Additional monitoring controls, particularly controls built into related information systems such as Proforma for Windows, could help ensure appropriate review and approvals take place as part of the balance confirmation process. Although no material misstatements were identified based on our review of a sample of proforma jackets, failure to implement procedures as they are designed increases the risk that material misstatements may occur and will not be detected, resulting in the decreased reliability of proforma financial statements.

Recommendation:

2. We recommend that the Director, DRR, strengthen monitoring controls over the process for preparation of proforma financial statements to ensure information in the statements is reliable, complete, and current. Monitoring controls should ensure compliance with guidance regarding the confirmation process, including review, approval, and sign-off of each proforma jacket and prohibit the approval of bank-level jackets when the related subsidiary-level jackets have not been reviewed and approved.

Appendix A: Objective, Scope, and Methodology

Objective

The objective of the audit was to assess the proforma closing process for Corus Bank, including the reliability of the related proforma financial statements, and compliance with applicable provisions of the P&A agreement with MB Financial.

We conducted our performance audit in accordance with GAGAS issued by the Comptroller General of the United States and with audit policies and procedures established by the FDIC OIG. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Additionally, we used the GAO's November 1999 publication, *Standards for Internal Control in the Federal Government*, as a guide for performing the audit and FDIC Circular 4010.3, dated September 25, 2006, entitled, *FDIC Enterprise Risk Management Program*, which states that the GAO standards define the minimum acceptable level of quality for internal control and provide the basis against which internal controls should be evaluated at the FDIC.

Field work covered transactions and activities from September 11, 2009 through June 22, 2010.

Scope & Methodology:

To accomplish our objectives, we:

- Reviewed and assessed internal control significant in the context of the audit objective to determine if controls were properly designed and implemented, including significant controls within and applicable to the Corus Bank proforma process as defined in the:
 - PTM,
 - P&A agreement, and
 - Other applicable criteria.
- Assessed the design of the proforma closing process and its implementation in the case of Corus Bank, including:
 - Identifying key controls designed by the FDIC as part of the proforma closing process by reviewing the PTM and other policies and procedures used by DRR in the proforma process and summarizing those controls.
 - Determining if controls had been implemented as designed by testing documents and performing interviews as necessary.
 - Assessing the sufficiency of the design and whether the objectives would be met if the controls had been implemented as designed.
 - Identifying any control weaknesses in either design or implementation.

- Recommending improvements to the design or identifying failures in the implementation of the process.
- Assessed, through the review of transactions and supporting documentation, the:
 - Confirmed balance at the inception of the receivership (entailed examining Corus Bank's financial statements and subsequent adjustments).
 - Allocation of assets and liabilities between the FDIC and the acquiring institution (MB Financial) based on terms of the P&A agreement.
 - Proforma financial statements generated for the FDIC and the assuming institution (MB Financial) reflecting the P&A agreement allocations.
 - Proforma financial statements for the receivership adjusted to a cash basis.
 - Inception balances, based on the adjusted confirmed balances, recorded in the FDIC's system of record.
 - Subsequent adjusting entries that revise the initial amounts for assets in liquidation and assumed by the acquiring institution (MB Financial).

For all financial statement balances, we:

- Agreed balances per the unadjusted FDIC balance to amounts per the final failed bank general ledger.
- Concluded on reasonableness of classification of balance sheet items
- Agreed adjustments to FDIC-confirmed balances
- Researched all cash-basis adjustments and concluded on reasonableness
- Assessed compliance with the P&A agreement for valuation and transfer of assets and liabilities from the failed bank to the receivership and/or assuming institution

In addition, for judgmentally sampled proforma jackets, we:

- Agreed balances per the failed bank general ledger to supporting documentation contained in the proforma jackets and concluded on adequacy of documentation in the proforma jackets to support final failing bank general ledger balances.
- Researched all general ledger adjustments and concluded on reasonableness.
- Concluded on the reasonableness and completeness of required memoranda and checklist documentation in the proforma jackets and on the face of the proforma jacket envelope.

Proforma jackets (80 bank-level jackets and 180 subsidiary-level jackets) were sampled judgmentally based on our risk assessment completed during audit planning.

During the course of the audit, we assessed the risks of fraud occurring that would be significant in the context of the audit objectives. No information came to our attention indicating that such fraud had occurred.

We gained an understanding of business processes and related information system controls, but the objectives and scope of our audit did not include evaluating the effectiveness of those controls in order to obtain sufficient, appropriate evidence.

Appendix B: Acronyms Used in the Report

COSO	Committee of Sponsoring Organizations of the Treadway Commission
DIF	Deposit Insurance Fund
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
FDIC	Federal Deposit Insurance Corporation
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
OIG	Office of Inspector General
ORE	Other Real Estate
OREO	Other Real Estate Owned
P&A	Purchase & Assumption
PTM	<i>Proforma Training Manual</i>

Appendix C: Glossary of Terms

Term	Definition
Cash Basis Adjustments	Process where proforma balances retained by the FDIC as Receiver are adjusted from GAAP accrual accounting to cash-basis accounting. Financial statement adjustments to the cash basis accounting are referred to as Division of Accounting Corporate Services (DACS) statements and only reflect the FDIC as receiver. GAAP or accrual financial statements are produced for both the FDIC as Receiver and the Assuming Institution as proforma statements.
Federal Deposit Insurance Corporation (FDIC)	A federal corporation chartered by the Congress in 1933. It was created to promote confidence in the nation's banking system by establishing a federal deposit insurance program and by acting as the primary federal bank regulator of state chartered banks that are not members of the federal reserve system.
Financial Manager	Effectively and efficiently manages the proforma and tax closing process and assesses its impact on receivership management and operations. Coordinates with the Asset Management Branch to ensure financial controls are in place for the interim servicing of assets. He or she performs many of the pre-closing administrative duties, i.e., travel authorization, overtime requests, etc.
Generally Accepted Accounting Principles (GAAP)	Accounting rules and conventions established by the Financial Accounting Standards Board that define acceptable practices in preparing financial statements in the United States.
General Ledger	Central accounting record of the organization. The general ledger reflects booked balance sheet and income statement activities.
Proforma	Process where each balance sheet account of a failed institution is reviewed, verified, reconciled, and adjusted through the date of closing and documented in a settlement jacket. These documented adjusted assets and liabilities are divided among the assuming institution and the FDIC as receiver per the P&A agreement or closing agreement. The Proforma Team Leader and Financial Manager review each jacket for approval of related adjustments and split of assets and liabilities per the P&A agreement.
Proforma Jacket	Packet of information gathered through the proforma process that verifies and reconciles the failed institution's general ledger balance sheet accounts to a trial balance.
Proforma for Windows	Computerized, Windows-based proforma program that generates financial statements for both the Assuming Institution and the FDIC as receiver as of closing date. The failed institution's general ledger is converted to proforma "call report" account numbers and adjusted for activity through the date of closing before the closing financial statements are generated.

Proforma Team Leader	Generally, the duties of the Proforma Team Leader are to direct the proforma process and encompass those activities necessary to produce an accurate adjusted Statement of Condition (balance sheet) of the failed institution. Financial statements (proforma statements) are produced that reflect the financial condition of the failed institution, along with separate statements reflecting assets and liabilities passed to the Assuming Institution and those retained by the FDIC as receiver. The Proforma Team Leader directs the proforma support staff in reviewing, balancing, and completing the settlement jackets.
Purchase and Assumption Transaction	A resolution transaction in which a healthy institution purchases some or all of the assets of a failed bank or thrift and assumes some or all of the liabilities.
Receiver	A person or entity, including a government agency, appointed to handle the assets and liabilities of a failed insured depository institution. A receiver succeeds to all the interests and property owned by the failed institution. The FDIC is the receiver for insured federal depository institutions.
Receivership	The FDIC is appointed as a receiver of a failed insured depository institution. The FDIC, as receiver, acts as the trustee for depositors, general creditors, and shareholders of the closed institution. The institution is generally referred to as a Receivership.
Split	The division of assets and liabilities between the FDIC as receiver and the acquirers or assuming institution per the P&A agreement or closing agreement.

Part II

Management Comments and OIG Evaluation

MANAGEMENT COMMENTS AND OIG EVALUATION

On September 3, 2010, the Director, DRR, provided a written response to the draft of this report. Management's response is presented in its entirety on the next page.

Management concurred with Reed's findings and recommendations. In response to the recommendations, DRR stated that it planned to rewrite the PTM to reflect current policies, procedures, practices, and technology used to support the proforma process. Additionally, the updated manual will include a comprehensive multi-step review process and a process for reviewing bank and subsidiary inter-related accounts. DRR expects to complete these actions by December 31, 2010.

A summary of management's response to the recommendations is on page II-3. DRR's planned actions are responsive to Reed's recommendations. The recommendations are resolved but will remain open until we determine that the agreed-to corrective actions have been completed and are responsive.

MANAGEMENT COMMENTS



Federal Deposit Insurance Corporation

550 17th Street NW, Washington, D.C. 20429-9990

Division of Resolutions and Receiverships

DATE: September 3, 2010

TO: Russell A. Rau
Assistant Inspector General for Audits

FROM: /Signed/
Mitchell L. Glassman, Director
Division of Resolutions and Receiverships

SUBJECT: Response to Draft Audit Report Entitled, *The FDIC's Proforma Process for Corus Bank, N.A. (Assignment No. 2010-033)*

This memorandum is in response to the recommendations in the subject draft audit report dated August 13, 2010.

OIG Audit Recommendation 1: DRR promptly complete the update of the PTM, including guidance related to confirming and adjusting subsidiary balances, defining and documenting Proforma review and approval procedures for subsidiary accounts, and documenting the end-to-end closing process for P&A agreements.

DRR Response: DRR agrees with and expects to resolve this recommendation by December 31, 2010. The Proforma Training Manual is being rewritten to reflect current policies, procedures, practices, and technology used to support the Proforma process. The manual will include guidance on completing a mini-Proforma for subsidiary entities and will document the nuances associated with each type of resolution transaction impacting the depth of the subsidiary mini-Proforma. The Proforma Manual will include end-to-end flowcharts for a resolution that involves a Purchase and Assumption Agreement.

FDIC has purchased software licenses for an application called PPM (Policies and Procedures Manual). The Proforma Manual is being rewritten in PPM. PPM provides a mechanism for Proforma to make ongoing updates so the current process is always reflected in the Proforma Manual.

OIG Audit Recommendation 2: DRR strengthen monitoring controls over the process for preparation of Proforma financial statements to ensure information in the statements is reliable, complete, and current. Monitoring controls should ensure compliance with guidance regarding the confirmation process, including review, approval, and sign-off of each Proforma jacket, and prohibit the approval of bank-level jackets when the related subsidiary-level jackets have not been reviewed and approved.

DRR Response: DRR agrees with and expects to resolve this recommendation by December 31, 2010. The updated Proforma Manual will document a comprehensive multi-step review process. The manual will also include a process for documenting and reviewing related failed bank and subsidiary inter-related accounts.

cc: Bret D. Edwards, Director DOF
Gail Pateluns, Deputy Director, DRR
Ronald F. Bieker, Deputy Director, DRR

Steve Trout, DRR Internal Review
Howard Cope, DRR Internal Review

SUMMARY OF MANAGEMENT'S COMMENTS ON THE RECOMMENDATIONS

This table presents management's response to the recommendations in the report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
1.	DRR agreed with the recommendation and will rewrite the PTM by December 31, 2010 to reflect current policies, procedures, practices, and technology used to support the proforma process. The manual will include guidance on completing a mini-proforma for subsidiary entities and document the nuances associated with each type of resolution transaction impacting the depth of the subsidiary proforma. The updated PTM will also include end-to-end flowcharts for a resolution that involves a P&A agreement.	December 31, 2010	\$0	Yes	Open
2.	DRR agreed with the recommendation and, by December 31, 2010, will update the PTM to document a comprehensive multi-step review process. The PTM will also include a process for documenting and reviewing related failed bank and subsidiary inter-related accounts.	December 31, 2010	\$0	Yes	Open

^a Resolved – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation.
(2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation.
(3) Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

^b Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.