



FEDERAL DEPOSIT INSURANCE CORPORATION

OFFICE OF
INSPECTOR GENERAL

SEMIANNUAL
REPORT
TO THE
CONGRESS

October 1, 2008 – March 31, 2009

FDIC

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the nation's banking system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Approximately 4,900 individuals within seven specialized operating divisions and other offices carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured more than \$4.7 trillion in deposits in over 8,300 institutions, of which the FDIC supervised approximately 5,100. The Corporation held insurance funds of \$ 18.9 billion to ensure depositors are safeguarded. Receiverships under FDIC control totaled 41, with \$15 billion of assets in liquidation.

CONFIDENCE AND STABILITY

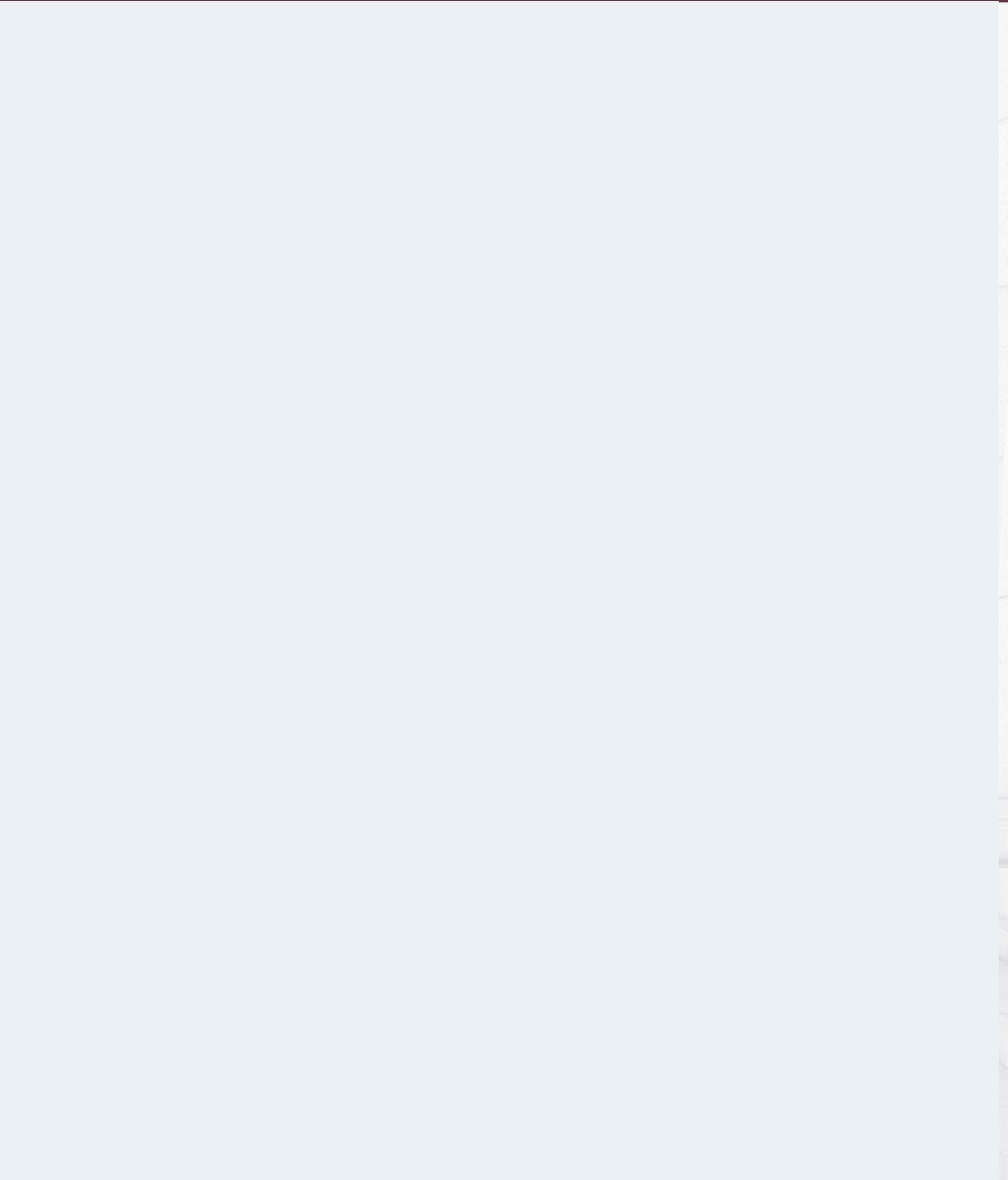
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INSPECTOR GENERAL'S STATEMENT

I am pleased to provide this semiannual report on the activities and accomplishments of the Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) from October 1, 2008 through March 31, 2009. The audits, evaluations, investigations, and other activities highlighted in this report illustrate the OIG's on-going commitment to promoting efficiency, effectiveness, and integrity and helping the Corporation successfully achieve its longstanding mission of maintaining stability and public confidence in the nation's banking system. Over the last 6 months, our office issued 14 audit and evaluation reports. We closed 24 investigations, with over \$55 million in total fines, restitution, and monetary recoveries.

As discussed in more detail in this report, our efforts and results are directly tied to the unfolding events of the economy and financial services industry. For example, under the Federal Deposit Insurance Act, my office is required to perform a material loss review when an FDIC-supervised institution failure results in a material loss to the Deposit Insurance Fund, currently defined as the greater of \$25 million or 2 percent of the institution's assets at the time of closing. These reviews determine the cause of failure and assess supervision of the institution. We

issued the results of 4 such reviews during the reporting period, and had 18 others ongoing at the end of the reporting period. Based on the cumulative results of such reviews, we have formulated initial summary observations on the causes, trends, and characteristics of such failures. We intend to analyze certain of those issues in more detail and form recommendations, as indicated, in the upcoming months.

We also evaluated the controls in the FDIC's processing of applications under the Troubled Asset Relief Program's Capital Purchase Program and made several recommendations in that regard. We have initiated a number of key assignments to review aspects of the Corporation's mounting resolution and receivership activities and some of the new programs the FDIC has undertaken, such as the Temporary Liquidity Guarantee Program, loan modification programs, loss share arrangements, and the Legacy Loan Program. In conducting all of this work, we are coordinating closely with others in the Inspector General community to leverage resources and maximize our effectiveness.

With respect to our investigative activity, we are currently working about 175 active investigations, most of which involve fraud at or impacting open or closed

financial institutions. We have a large number of mortgage fraud cases that we are pursuing as well as other cases involving bank fraud, embezzlements, bribery, and kickbacks. We continue to work closely and partner with the FDIC, Department of Justice, Federal Bureau of Investigation, and other federal and state law enforcement organizations to successfully conduct this work and appreciate the solid working relationships we have with them.

In closing, I express my gratitude to Patricia M. Black, former Deputy Inspector General, who retired after an exceptional federal career of more than 34 years. She played a critical role in assisting me and guiding others in the office as we addressed the many challenges of the day. I also thank the OIG Executive team and staff for their efforts during these stressful times. I look forward to continuing to work with FDIC leadership, the Congress, and colleagues in the Inspector General community in helping to maintain stability and public confidence in the nation's banking system.

Jon T. Rymer
Inspector General
April 30, 2009





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Abbreviations and Acronyms

| | |
|------------|--|
| ADC | acquisition, development, and construction |
| ALLL | allowance for loan and lease losses |
| AMG | American Macro Growth |
| C&D | Cease and Desist Order |
| C&DC | Computer & Data Consultants, Inc. |
| CAMELS | Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk |
| CEP | Corporate Employee Program |
| CIGIE | Council of the Inspectors General on Integrity and Efficiency |
| CPP | Capital Purchase Program |
| CRE | commercial real estate |
| DIF | Deposit Insurance Fund |
| DIT | Division of Information Technology |
| DRR | Division of Resolutions and Receiverships |
| DSC | Division of Supervision and Consumer Protection |
| ECIE | Executive Council on Integrity and Efficiency |
| ECU | Electronic Crimes Unit |
| FBI | Federal Bureau of Investigation |
| FDI Act | Federal Deposit Insurance Act |
| FDIC | Federal Deposit Insurance Corporation |
| FNBB | First National Bank of Blanchardville |
| FPB | First Priority Bank |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| GPRA | Government Performance and Results Act of 1993 |
| HELOC | Home Equity Lines of Credit |
| HUD | Department of Housing and Urban Development |
| IG | Inspector General |
| IndyMac | IndyMac Bank, FSB |
| IP | Internet Protocol |
| IT | Information Technology |
| Mercantile | Mercantile-Safe Deposit & Trust Company |
| MLR | Material Loss Review |
| OERM | Office of Enterprise Risk Management |
| OFR | Office of Financial Regulation |
| OI | Office of Investigations |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| ORL | Offsite Review List |
| OSBC | Office of the State Bank Commissioner |
| PCA | Prompt Corrective Action |
| PCIE | President's Council on Integrity and Efficiency |
| RTC | Resolution Trust Corporation |
| SSB | Silver State Bank |
| TARP | Troubled Asset Relief Program |
| WaMu | Washington Mutual Bank |

HIGHLIGHTS AND OUTCOMES

The OIG's 2009 Business Plan contains five strategic goals that are closely linked to the FDIC's mission, programs, and activities, and one that focuses on the OIG's internal business and management processes. These highlights show our progress in meeting these goals during the reporting period. A more in-depth discussion of OIG audits, evaluations, investigations, and other activities in pursuit of these goals follows.

STRATEGIC GOAL 1 **SUPERVISION: ASSIST THE FDIC TO ENSURE THE NATION'S BANKS OPERATE SAFELY AND SOUNDLY**

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. During the reporting period, we completed four material loss reviews of institutions whose failures resulted in losses to the Deposit Insurance Fund ranging from \$72 million to \$533 million. Another audit in this area addressed FDIC risk management examination coverage of institution underwriting practices for consumer loans not secured by

real estate. In an evaluation of controls over the FDIC's processing of Troubled Asset Relief Program Capital Purchase Program applications from FDIC-supervised institutions, we determined that overall, the FDIC's controls provide reasonable assurance that the Corporation is complying with Department of the Treasury guidance. We made two recommendations to enhance those controls. Ongoing work in support of this goal at the end of the reporting period included 18 material loss reviews of failed FDIC-regulated banks.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we achieved successful results in combating a number of mortgage fraud schemes. Our efforts in support of the Department of Justice's Operation Malicious Mortgage and other mortgage fraud working groups also supported this goal. Particularly noteworthy results from our casework include multiple sentencing for a mortgage fraud scheme where three individuals received prison sentences ranging from 18-60 months and were ordered to pay restitution totaling \$5.8 million. Another of our investigations led to the sentencing

of a mortgage broker in a land-flipping scheme. In another case, 12 individuals were sentenced for their roles in a massive home equity line of credit fraud scheme that enriched them temporarily and impacted at least 16 different lenders in the northern New Jersey area. Their sentences ranged from 2 to 20 months, with restitution orders totaling nearly \$13 million.

The Office of Investigations also continued its close coordination and outreach with the Division of Supervision and Consumer Protection (DSC), the Division of Resolutions and Receiverships (DRR), and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with DSC and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. (See pages 9-21.)

STRATEGIC GOAL 2 **INSURANCE: HELP THE FDIC MAINTAIN THE VIABILITY OF THE INSURANCE FUND**

Our material loss review work supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the fund by way of recommendations that can help to prevent future failures, and the deterrent aspect of investigations and the

ordered restitution that may help to mitigate an institution's losses. We conducted audit work to assess FDIC controls related to the Off-site Review List, a monitoring tool used to identify institutions with potential problems. We made recommendations for improvements to that tool. At the end of the reporting period, ongoing work in this goal area included an audit of the FDIC's investment management practices related to the Deposit Insurance Fund, an evaluation related to the failure of IndyMac Bank, FSB focusing on the FDIC's awareness of the condition of the institution and actions it took as back-up regulator and deposit insurer, and an assessment of internal controls pertaining to the Corporation's Temporary Liquidity Guarantee Program. (See pages 22-24.)

STRATEGIC GOAL 3
CONSUMER PROTECTION:
ASSIST THE FDIC TO
PROTECT CONSUMER
RIGHTS AND ENSURE
CUSTOMER DATA SECURITY
AND PRIVACY

Audits, evaluations, and investigations can contribute to the FDIC's protection of consumers in several ways. We completed an evaluation of enforcement actions for compliance violations, conducted at the request of the FDIC Chairman. Management's response to this work indicated a willingness and commitment to devote sufficient resources to ensure an effective enforcement action program.

The OIG was pleased to learn that the Emergency Economic Stabilization Act of 2008 contains a long-supported provision that the OIG helped to draft giving the FDIC increased enforcement

authority for misrepresentation of FDIC affiliation or insurance. In that regard, the OIG's Electronic Crimes Unit responded to instances where emails and facsimiles were misused to entice consumers to divulge personal information and successfully deactivated 14 fraudulent email accounts and 6 fraudulent facsimile numbers used for such purposes. (See pages 25-27.)

STRATEGIC GOAL 4
RECEIVERSHIP MANAGE-
MENT: HELP ENSURE THAT
THE FDIC IS READY TO
RESOLVE FAILED BANKS AND
EFFECTIVELY MANAGES
RECEIVERSHIPS

We had several key assignments in the planning stages in this goal area as of the end of the reporting period. One evaluation will identify and evaluate controls in place over the contracting and legal services functions to address the risks presented by a significant increase in resolution and receivership-related contracting activity. A second evaluation will cover the loss share provisions, including those in the assistance agreements with Citigroup and Bank of America, to ensure compliance with all related terms, such as those involving asset eligibility and institution management of guaranteed assets. Planned work involves assessing the FDIC's efforts for monitoring implementation of loan modification programs at various institutions. We are working jointly with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction involving Washington Mutual Bank, including evaluating the FDIC's supervision and monitoring of Washington Mutual Bank in its role as insurer.

From an investigative standpoint, we continued to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed. (See pages 28-29.)

STRATEGIC GOAL 5
RESOURCES MANAGEMENT:
PROMOTE SOUND GOVER-
NANCE AND EFFECTIVE
STEWARDSHIP AND SECURITY
OF HUMAN, FINANCIAL, IT,
AND PHYSICAL RESOURCES

The OIG addressed a number of important areas in conducting work in support of this goal area. One of our evaluations examined the FDIC's Corporate Employee Program, a training program designed to ensure that by training and cross-divisional opportunities, the FDIC workforce will be fully capable and ready to respond to changes in examination or resolution and receivership priorities. We performed an audit of follow-up actions taken related to the FDIC's controls over the confidentiality of sensitive email communications. Other evaluations this period focused on two security areas: mail handling and screening procedures at FDIC facilities and guard services provided to protect FDIC buildings and people. Additionally, we completed an audit of oversight management of the FDIC's contract with ARAMARK. In each instance, we made recommendations for improvements to controls or other activities in the interest of ensuring the success of the efforts.

We also promoted integrity in FDIC internal operations through ongoing OIG Hotline referrals and coordination with the FDIC's Ethics Office, as warranted. (See pages 30-35.)

**STRATEGIC GOAL 6
OIG INTERNAL PROCESSES:
BUILD AND SUSTAIN A
HIGH-QUALITY OIG STAFF,
EFFECTIVE OPERATIONS,
OIG INDEPENDENCE, AND
MUTUALLY BENEFICIAL
WORKING RELATIONSHIPS**

To ensure effective and efficient management of OIG resources, among other activities, we continued realignment of the OIG investigative resources with FDIC regions, and examined staffing plans and budget resources to ensure our office is prepared to handle our increasing workload. Further, we completed a project to upgrade the OIG's audit and evaluation tracking system to better monitor costs and time associated with our work. We completed a quality monitoring review in the Office of Audits to analyze quality assurance activities completed in calendar year 2008. We also completed a training effort for OIG staff related to protecting personally identifiable information by encrypting portable media devices and using Entrust when sending sensitive email.

We continued to administer a contract to a qualified firm to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We continued use of the OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audit and evaluation assignments, and the Inspector General feedback form for Office of Audits and Office of Evaluations assignments that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by planning and conducting a 4-day training conference for FDIC OIG and other financial regulatory OIG staff related to Financial Institution Analysis and Supervision, with an emphasis on Material Loss Review training. We also offered opportunities for OIG staff to attend graduate schools of banking to further their expertise and knowledge of the complex issues in the banking industry.

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; and coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the Government Accountability Office (GAO). The OIG participated in corporate diversity events, and we maintained and updated the OIG Web site to provide easily accessible information to stakeholders interested in our office and the results of our work.

In the area of enhancing OIG risk management activities, we continued efforts to carry out and monitor the OIG's fiscal year (FY) 2009 business planning process. We also participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly. In accordance with the Reports Consolidation Act of 2000, we assessed the most significant management and performance challenges facing the FDIC, and

provided this assessment to FDIC management for inclusion in the Corporation's performance and accountability report and factored this assessment into our FY 2009 planning. We submitted the OIG's 2008 Assurance Statement to the FDIC Chairman, in accordance with the annual requirement under which the OIG provides assurance that the OIG has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, OMB A-123, and other key legislation. At GAO's request, we provided the OIG's perspectives related to internal fraud risk at the FDIC in connection with GAO's responsibility under Statement of Auditing Standards No. 99, Consideration of Fraud in Financial Statement Audits. (See pages 36-40.)

Significant Outcomes

(October 2008– March 2009)

| | |
|--|---------------------|
| Audit and Evaluation Products Issued | 14 |
| Nonmonetary Recommendations | 28 |
| Investigations Opened | 36 |
| Investigations Closed | 24 |
| OIG Subpoenas Issued | 20 |
| Judicial Actions: | |
| Indictments/Informations | 82 |
| Convictions | 48 |
| Arrests | 51 |
| OIG Investigations Resulted in: | |
| Fines of | \$133,213 |
| Restitution of | \$54,960,585 |
| Asset Forfeiture of | \$10,000 |
| Other Monetary Recoveries of | 0 |
| Total | \$55,103,798 |
| Cases Referred to the Department of Justice (U.S. Attorney) | 28 |
| Cases Referred to FDIC Management | 1 |
| OIG Cases Conducted Jointly with Other Agencies | 154 |
| Hotline Allegations Referred | 51 |
| Proposed Regulations and Legislation Reviewed | 11 |
| Proposed FDIC Policies Reviewed | 10 |
| Responses to Requests and Appeals under the Freedom of Information Act | 10 |

1

STRATEGIC GOAL 1: The OIG Will Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. The FDIC is the primary federal regulator for approximately 5,100 FDIC-insured, state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "state non-member" institutions). The Department of the Treasury (the Office of the Comptroller of the Currency and the Office of Thrift Supervision) or the Federal Reserve Board supervise other banks and thrifts, depending on the institution's charter. The Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for nearly 3,200 national banks, state-chartered banks that are members of the Federal Reserve System, and savings associations.

The examination of the institutions that it regulates is a core FDIC function. Through this process, the FDIC assesses the adequacy of management and internal control systems to identify, measure, and control risks; and bank examiners judge the safety and soundness of a bank's operations. The examination program employs risk-focused supervision for banks. According to examination policy, the objective of a risk-focused examina-

tion is to effectively evaluate the safety and soundness of the bank, including the assessment of risk management systems, financial condition, and compliance with applicable laws and regulations, while focusing resources on the bank's highest risks. Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness relates to compliance with the Bank Secrecy Act, which requires financial institutions to keep records and file reports on certain financial transactions. An institution's level of risk for potential terrorist financing and money laundering determines the necessary scope of the Bank Secrecy Act examination.

In the event of an insured depository institution failure, the Federal Deposit Insurance (FDI) Act requires the cognizant OIG to perform a review when the DIF incurs a material loss. A loss is considered material to the insurance fund if it exceeds \$25 million and 2 percent of the failed institution's total assets. The FDIC OIG performs the review if the FDIC is the primary regulator of the institution. The Department of the Treasury OIG and the OIG at the Board of Governors of the Federal Reserve System perform reviews when their agencies are the primary regulators. These reviews

identify what caused the material loss, evaluate the supervision of the federal regulatory agency (including compliance with the Prompt Corrective Action requirements of the FDI Act), and propose recommendations to prevent future failures. In January 2009, the Inspectors General of the FDIC, the Department of the Treasury, and the Federal Reserve Board wrote to the Chairman of the House Financial Services Committee to ask that the Congress consider increasing the threshold for conducting material loss reviews. We explained that if the current threshold remained in effect, it would limit the OIGs' ability to effectively oversee many of the new and significant programs and initiatives the federal banking agencies are undertaking. During the past 6-month reporting period, 33 FDIC-insured institutions failed. Nineteen of these triggered the need for the FDIC OIG to conduct a material loss review.

The OIG's audits and evaluations are designed to address various aspects of the Corporation's supervision and examination activities, as illustrated in the write-ups that follow. Through their investigations of financial institution fraud, the OIG's investigators also play a critical role in helping to ensure the nation's banks operate safely

and soundly. Bank management is the first line of defense against fraud, and the banks' independent auditors are the second line of defense. Because fraud is both purposeful and hard to detect, it can significantly raise the cost of a bank failure, and examiners must be alert to the possibility of fraudulent activity in financial institutions.

The OIG's Office of Investigations works closely with FDIC management in DSC and the Legal Division to identify and investigate financial institution crime, especially various types of fraud. OIG investigative efforts are concentrated on those cases of most significance or potential impact to the FDIC and its programs. The goal, in part, is to bring a halt to the fraudulent conduct under investigation, protect the FDIC and other victims from further harm, and assist the FDIC in recovery of its losses. Pursuing appropriate criminal penalties not only serves to punish the offender but can also deter others from participating in similar crimes. Our criminal investigations can also be of benefit to the FDIC in pursuing enforcement actions to prohibit offenders from continued participation in the banking system.

When investigating instances of financial institution fraud, the OIG also defends the vitality of the FDIC's examination program by investigating associated allegations or instances of criminal obstruction of bank examinations and by working with U.S. Attorneys' Offices to bring these cases to justice.

The OIG's investigations of financial institution fraud currently constitute about 89 percent of

the OIG's investigation caseload. The OIG is also committed to continuing its involvement in inter-agency forums addressing fraud. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, the OIG engages in industry outreach efforts to keep financial institutions informed on fraud-related issues and to educate bankers on the role of the OIG in combating financial institution fraud.

To assist the FDIC to ensure the nation's banks operate safely and soundly, the **OIG's 2009 performance goals** are as follows:

- Help ensure the effectiveness and efficiency of the FDIC's supervision program, and
- Investigate and assist in prosecuting Bank Secrecy Act violations, money laundering, terrorist financing, fraud, and other financial crimes in FDIC-insured institutions.

OIG Work in Support of Goal 1

The OIG's Office of Audits issued five reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. These reports communicated the results of four material loss reviews and an audit of examination coverage of underwriting practices for consumer loans not secured by real estate. We also completed our evaluation of the Troubled Asset Relief Program Capital Purchase Program. Ongoing or planned audit work in support of the goal area as of the end of the reporting

period included 18 additional material loss reviews to determine the causes for the failures of FDIC-supervised financial institutions and an audit of the FDIC's brokered deposit waiver process.

Material Loss Reviews

We conducted four material loss reviews (MLR) during the reporting period. Losses associated with these failures ranged from \$72 million to \$533 million. In accordance with the FDI Act, the audit objectives for each review were to (1) determine the causes of the financial institution's failure and resulting material loss to the DIF and (2) evaluate the FDIC's supervision of the institution, including implementation of the Prompt Corrective Action (PCA) provisions of section 38. The four failures and corresponding MLRs are discussed below.

In addition to issuing separate reports on each FDIC-supervised institution failure resulting in a material loss, we also plan to provide additional coverage of causes, trends, and characteristics in a series of summary reports and other communications and make recommendations accordingly.

Material Loss Review of First Priority Bank, Bradenton, Florida

On August 1, 2008, the State of Florida, Office of Financial Regulation (OFR), closed First Priority Bank (FPB) and named the FDIC as receiver. On August 19, 2008, the FDIC notified the OIG that FPB's total assets at closing were \$241 million, and the estimated loss to the DIF was \$72 million.

FPB was a state-chartered nonmember bank insured on December 8, 2003. As a "de novo"

bank for its first 3 years in operation, FPB was subject to additional supervisory oversight and regulatory controls, including the development and maintenance of a current business plan and increased examination frequency. With five branches in Florida, FPB engaged principally in traditional banking activities within its local marketplace, which experienced a significant economic downturn starting in 2006. FPB had no holding company, subsidiaries, or affiliates.

FPB's assets consisted principally of commercial real estate (CRE) loans, including a significant concentration in residential acquisition, development, and construction (ADC) loans. The FDIC has recognized the increased risk that CRE loans present to financial institutions and has issued guidance that describes a risk management framework to effectively identify, measure, monitor, and control CRE concentration risk. That framework includes effective oversight by bank management, including the Board of Directors and senior executives, and sound loan underwriting, administration, and portfolio management practices.

Our MLR reported that FPB failed primarily due to bank management's aggressive pursuit of asset growth concentrated in high-risk CRE loans with inadequate loan underwriting and a lack of other loan portfolio and risk management controls. Resulting losses severely eroded FPB's earnings and capital, and negatively impacted liquidity, leading to the bank's failure and a material loss to the DIF.

With respect to supervision, the FDIC and OFR conducted timely

examinations of FPB. Additionally, the FDIC provided oversight through its off-site monitoring process and accelerated examinations as a result of identified deficiencies. As a result of the November 2006 examination, the FDIC delayed its approval of three FPB branch applications until FPB provided information on how the bank would address examination concerns. As a result of the September 2007 examination, and after various OFR and FPB discussions regarding the bank's condition and proposed regulatory actions, the FDIC, in conjunction with the OFR, took supervisory action in February 2008 to address management's failure to implement corrective actions in response to audit and/or examiner concerns. Such concerns included, but were not limited to, inadequate management oversight, poor asset quality, the need to increase capital and improve earnings, an inadequate allowance for loan and lease losses (ALLL), noncompliance with laws and regulations, and an outdated liquidity policy. Further, in March and May 2008, the FDIC notified FPB of applicable restrictions under PCA when FPB fell below the well capitalized category, and in June 2008, the FDIC issued a PCA Directive. The FDIC has authority to take a wide range of supervisory actions. In the case of FPB, however, supervisory actions were not always timely and effective in addressing the bank's most significant problems.

The FDIC has taken steps to improve its supervisory review of business plans, oversight of financial institutions that have CRE loan concentrations and use interest reserves, and contingency

liquidity plans. However, we reported that FPB's loan documentation and administration deficiencies should have warranted greater concern during the 2006 examination. Specifically, during that examination, FPB was in a de novo status; the loan portfolio had begun to deteriorate and was highly concentrated in high-risk CRE/ADC loans; loan administration issues, identified as early as the FDIC's 2004 examination, were uncorrected or in need of improvement; ALLL was inadequate; and FPB's risk profile was increasing. Greater concern regarding FPB's loan documentation and administration deficiencies could have led to elevated supervisory attention and earlier supervisory action.

In its written response, DSC agreed with the OIG's conclusions regarding the causes of FPB's failure and resulting material loss and the supervisory activities related to FPB. DSC also agreed that the results of the November 2006 examination related to FPB's loan documentation and administration deficiencies should have warranted greater supervisory action.

Material Loss Review of The Columbian Bank and Trust Company, Topeka, Kansas

On August 22, 2008, the State of Kansas, Office of the State Bank Commissioner (OSBC), closed Columbian and named the FDIC as receiver. On September 11, 2008, the FDIC notified the OIG that Columbian's total assets at closing were \$726 million, with a material loss to the DIF estimated at \$61.5 million. As of December 31, 2008, the estimated loss to the DIF increased to \$232 million.

Columbian, originally a national bank that became insured on October 2, 1978, was headquartered in Topeka, Kansas. The FDIC became the primary federal regulator of Columbian in December 1996. At closing, the bank had seven branches in Kansas and one in Missouri. Columbian was wholly owned by a two-bank holding company, which was wholly owned by an individual serving as a Director and a Vice President of Columbian. Columbian's loan portfolio largely consisted of CRE loans, with a significant concentration in land ADC loans, many of which were brokered and/or out-of-territory.

We reported that Columbian failed primarily due to bank management's pursuit of rapid asset growth concentrated in high-risk CRE/ADC loans, without adequate loan underwriting and credit administration practices. Resulting losses due to asset quality deterioration and a downturn in the economy severely eroded capital and, in turn, the availability of wholesale funding sources used by the bank to fund its growth. As a result, the bank was unable to satisfy liquidity requirements, leading to its failure.

With respect to supervision, the FDIC and OSBC conducted regular examinations of Columbian from 1996 until its closing in 2008. In 2005, OSBC reported weaknesses in Columbian's credit administration practices and noted the bank's first use of brokered deposits as a wholesale funding source. In 2006, in addition to identifying some of the weaknesses reported in the 2005 examination, the FDIC reported concerns regarding out-of-territory lending, rapid loan

growth, and underfunding of the ALLL. As a result of the July 2007 examination, the OSBC, in consultation with the FDIC, downgraded Columbian's composite rating, and the FDIC expedited the 2008 examination. The FDIC did not issue a PCA Directive to Columbian because the bank had not become undercapitalized. In July 2008, the FDIC and OSBC jointly issued a Cease and Desist Order (C&D) in an attempt to stop Columbian from operating in an unsafe and unsound manner. Among the 19 provisions, the C&D called for improvements in the bank's liquidity and funds management, use of brokered deposits, concentrations of credit, use of interest reserves, maintenance of a sufficient ALLL, and loan policy.

Although FDIC and OSBC examinations identified the weaknesses in management, asset quality, and liquidity that ultimately led to Columbian's failure, supervisory action was not taken commensurate with the risks these weaknesses posed to the institution. Rather, Columbian's apparent strong earnings and lack of non-performing loans, which were attributable to such factors as an understated ALLL and the mismanagement of interest reserves, overshadowed supervisory concerns with Columbian's weaknesses until they became more pronounced based on changes in economic conditions. As a result, more timely supervisory action directed at Columbian's high-risk lending and weak credit underwriting and administration practices should have been taken. In particular, the institution continued to pay substantially increased dividends, accept brokered deposits, and originate

CRE loans while the 2007 examination report was being processed from July to November 2007.

DSC's written response to the draft report agreed with the OIG's conclusions regarding the causes of Columbian's failure and resulting material loss and the supervisory activities related to Columbian. DSC also agreed that increased supervisory action, commensurate with the risks these weaknesses posed to the institution, should have been implemented sooner.

Material Loss Review of Integrity Bank, Alpharetta, Georgia

On August 29, 2008, the Georgia Department of Banking and Finance (DBF) closed Integrity Bank and named the FDIC as receiver. On September 17, 2008, the FDIC notified the OIG that Integrity's total assets at closing were \$1.045 billion, with a material loss to the DIF estimated at \$295 million.

Integrity was a state-chartered nonmember bank that was established and insured on November 1, 2000. Integrity was headquartered in Alpharetta, Georgia, and, at closing, had five other branches in Georgia. Integrity was closely held by Integrity Bancshares, Inc., which had no other subsidiaries. Integrity provided full-service commercial banking activities. Integrity's loan portfolio was concentrated in ADC loans.

Integrity failed primarily due to management's aggressive pursuit of asset growth concentrating in higher-risk ADC loans without adequate controls. Integrity lacked adequate loan underwriting and other loan portfolio and risk management controls and liquidity management practices

to support its growth strategy. Resulting losses severely eroded Integrity's capital, leading to its failure and material loss to the DIF.

Our report notes that the FDIC and DBF conducted timely examinations of Integrity. The FDIC also provided oversight through its off-site monitoring process. In February 2008, the FDIC issued a C&D and conducted a visitation to review actions taken as a result of the C&D. Further, in July 2008 and again in August 2008, the FDIC used its authority under the PCA provisions of the FDI Act to issue PCA Directives when Integrity became undercapitalized and then significantly undercapitalized. The FDIC has authority to take a wide range of supervisory actions. In the case of Integrity, however, supervisory actions were not timely and effective in addressing the bank's most significant problems.

Our report acknowledges that the FDIC has taken steps to improve its supervisory oversight of financial institutions that have concentrations in ADC loans and use interest reserves. However, examiners noted deficiencies in Integrity's asset quality in the 2005 and 2006 examinations that should have warranted greater concern. Specifically, these examinations identified significant risks in Integrity's loan portfolio, including a high concentration in ADC and individual loans; out-of-territory lending; and loan administration issues that were not corrected in subsequent examinations as Integrity's risk profile was increasing. Greater concern regarding Integrity's loan administration and declining asset quality could have led to elevated supervisory attention and earlier supervisory action.

DSC agreed with the OIG's conclusions regarding the causes of Integrity's failure and the resulting material loss. DSC noted that facts regarding Integrity's largest borrowing relationship and significant control weaknesses in the loan approval processes did not come to light until the 2007 examination. However, in our view, greater concern for Integrity's loan administration and underwriting weaknesses identified in the 2005 and 2006 examinations could have led to earlier supervisory action regarding Integrity's borrowing relationships.

Material Loss Review of Silver State Bank, Henderson, Nevada

On September 5, 2008, the Nevada Financial Institutions Division closed Silver State Bank (SSB), Henderson, Nevada, and named the FDIC as receiver. On September 30, 2008, the FDIC notified the OIG that SSB's total assets at closing were \$1.887 billion, with a material loss to the DIF estimated at \$505 million. As of December 31, 2008, the estimated loss to the DIF increased to \$553 million.

SSB was a state-chartered, nonmember bank that was established and insured on July 1, 1996. SSB was headquartered in Henderson, Nevada. When the bank failed, it operated 17 full-service branches in Nevada and Arizona. SSB's loan portfolio was concentrated in CRE loans and ADC loans. The FDIC has recognized the increased risk that CRE loans present to financial institutions and updated and re-emphasized bank guidance in March 2008. In particular, this guidance re-emphasized the importance of strong capital, an adequate ALLL,

and robust credit risk management practices. The guidance also re-emphasized the interagency guidance provided to banks in December 2006 that provided a framework for assessing CRE concentrations. The FDIC also updated and re-emphasized CRE loan examination guidance to examiners in July 2008. The guidance focused on examiner understanding of concentrations, market conditions, underwriting and credit risk management, and capital and ALLL adequacy.

We reported that SSB failed primarily due to bank management's high-risk business strategy. SSB pursued aggressive loan growth, concentrating in higher-risk CRE loans, and relied on funding from high-cost and volatile sources. This business strategy, coupled with weak risk management practices and controls, left the bank unprepared and unable to effectively manage operations in a declining economic environment. As loan losses increased, earnings and capital eroded. SSB experienced a severe liquidity crisis as depositors withdrew their funds, and the bank was at significant risk of not being able to meet its obligations when it was closed by the Nevada Financial Institutions Division.

In our view, the FDIC could have exercised greater supervisory concern and taken additional action to help prevent the bank's failure and/or to mitigate the potential level of losses incurred. Specifically, although the FDIC identified SSB's loan concentrations and funding sources as potential high-risk areas of concern in examinations completed as early as 2005,

the FDIC took limited actions to mitigate the bank's aggregate level of risk exposure. With respect to SSB's Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS) ratings, DSC assigned SSB a composite 2 rating as recently as the May 2007 examination, and only first identified SSB as a potential supervisory concern during the March 2008 visit to SSB as part of DSC's Commercial Real Estate Lending Visitation Program. DSC did not downgrade the bank's ratings until the following examination in July 2008—SSB's last examination before the bank failed. Further, aside from placing a Bank Board Resolution in 2005, which included provisions related to CRE loan concentrations, the FDIC did not place any other supervisory or corrective actions on the bank, including PCA directives.

Based on our review of the FDIC's Reports of Examination and available corresponding working papers and discussions with FDIC and Nevada Financial Institutions Division personnel, we identified several concerns regarding the FDIC's supervision of SSB. Specifically, DSC could have done more to: recognize and/or analyze risk; set a proper tone in the Reports of Examination; appropriately consider risk in CAMELS ratings; ensure that proper controls and risk limitation and/or mitigation strategies were established and appropriately implemented; identify in a timely manner SSB's increasing risk profile, including concentrations in targeted market areas, as a potential concern; and deal assertively with bank management on examination findings and recommendations.

DSC's written response generally agreed with the OIG's conclusions regarding the causes of SSB's failure. However, DSC stated that SSB management was receptive to examiner recommendations and identified positive actions that SSB took to improve its operations in response to the 2007 examination. DSC indicated that asset quality deteriorated quickly in 2008. Nonetheless, our view remains that DSC could have exercised greater supervisory concern and taken additional action to address SSB conditions and risks.

Examination Coverage of Underwriting Practices for Consumer Loans Not Secured by Real Estate

We conducted an audit to assess FDIC risk management examination coverage of institution underwriting practices for consumer loans not secured by real estate. As of March 31, 2008, FDIC-supervised institutions held approximately \$94.7 billion in consumer loans not secured by real estate. Such loans are used by consumers to finance a wide array of items, such as: automobiles, appliances, furniture, home repairs, education costs, medical expenses, and vacations. Accordingly, it is important for FDIC examiners to adequately assess the risks associated with such consumer loans when they represent a material percentage of an institution's assets.

We determined that DSC has established sound risk management examination guidance for the reviews of consumer loans not secured by real estate in FDIC-supervised institutions. Although our overall conclusion was positive with respect to examination

coverage of institution underwriting practices for consumer loans not secured by real estate, we noted that examiners did not always properly complete the required Underwriting Survey. The FDIC uses these surveys to track whether institutions are making loans without adequate collateral protection and the extent to which the institutions make loans to borrowers who lack a demonstrable ability to repay. Completed surveys also provide information about an institution's underwriting trend since the last examination and current underwriting practices.

We therefore recommended that the Director of DSC strengthen controls over the Underwriting Surveys to ensure the completeness and accuracy of survey data. DSC indicated that it planned to meet the intent of our recommendation as part of its ongoing revisions to the Underwriting Survey, which will be renamed the Credit and Consumer Products Survey, intended to enhance the quality and quantity of information collected.

Controls Over the FDIC's Processing of Capital Purchase Program Applications from FDIC-Supervised Institutions

In October 2008, the Congress passed and the President signed the Emergency Economic Stabilization Act of 2008, which established the Office of Financial Stability within the Department of the Treasury (Treasury) and authorized the Troubled Asset Relief Program (TARP). Among other things, the Act provides Treasury

with broad, flexible authorities to buy up to \$700 billion in “troubled assets” and allows Treasury to purchase and insure mortgages and securities based on mortgages and, in consultation with the Chairman of the Board of Governors of the Federal Reserve System, purchase any other financial instrument deemed necessary to stabilize financial markets.

Under the TARP, Treasury will purchase up to \$250 billion of preferred stock through a Capital Purchase Program (CPP). The CPP is available to qualifying financial institutions. Treasury will determine eligibility and allocations for interested parties after consultation with the appropriate federal banking agency. Specifically, in the case of the FDIC, the Corporation analyzes CPP applications from state nonmember banks and makes a recommendation to Treasury on whether a CPP request should be approved or denied.

We conducted an evaluation to assess the FDIC’s process and controls associated with reviewing applications from FDIC-supervised institutions to participate in the TARP CPP and forwarding approval recommendations to Treasury. At the time of our review, as of January 15, 2009, the FDIC had received 1,615 applications from FDIC-supervised institutions requesting almost \$34 billion in TARP funding. The FDIC had recommended 408 applications to Treasury for approval, of which 267 had received awards. FDIC officials estimated that the Corporation would complete its review of the remaining applications during the second quarter of 2009.

We found that the FDIC has established controls for reviewing

CPP applications that provide reasonable assurance that the Corporation is complying with Treasury’s CPP guidance. Based on our review, we determined that the FDIC followed the Treasury guidance for substantially all of the applications we reviewed. DSC issued examination procedures in February 2009 for monitoring compliance with CPP award provisions. Such procedures will allow the FDIC to measure participating institutions’ success in deploying TARP capital and ensure that the funds are used in a manner consistent with the intent of the Congress.

DSC officials initially noted that Treasury did not specify limits on institutions’ use of CPP funds and indicated that the FDIC did not intend to track applicants’ use of funds. CPP application forms developed by Treasury also did not require applicants to state their intended use of CPP funds. The FDIC advised state nonmember banks that they could use the CPP to bolster capital or to support acquisitions, both of which could ultimately allow for prudent lending.

In mid-January 2009, the FDIC issued a Financial Institution Letter to state nonmember banks that it expected institutions to monitor the use of CPP funds and show how participation in the CPP would expand prudent lending activity, such as through a plan with definable metrics for measuring performance.

Based on our review of 172 applications, about 44 percent of applicants indicated proposed uses for CPP funds. The most common stated uses of CPP funds were to increase lending, bolster capital,

or acquire other institutions.

We made two recommendations to enhance controls over the CPP application review process related to (1) forwarding applications recommended for approval that do not meet one or more of Treasury’s criteria to the CPP Council for additional review and (2) requiring Washington Office review of institutions recommended for withdrawal when the institutions technically meet the Treasury criteria. DSC concurred with both recommendations and proposed actions that were responsive to our recommendations.

Successful OIG Investigations Uncover Financial Institution Fraud

As mentioned previously, the OIG’s Office of Investigations’ work focuses largely on fraud that occurs at or impacts financial institutions. The perpetrators of such crimes can be those very individuals entrusted with governance responsibilities at the institutions—directors and bank officers. In other cases, individuals providing professional services to the banks, others working inside the bank, and customers themselves are principals in fraudulent schemes.

The cases discussed below are illustrative of some of the OIG’s most important investigative success during the reporting period. These cases reflect the cooperative efforts of OIG investigators, FDIC divisions and offices, U.S. Attorneys’ Offices, and others in the law enforcement community throughout the country.

About 40 percent of our active

cases address the increased incidence of mortgage fraud. Other significant cases during the reporting period involve embezzlement, bribery and kickbacks, and bank fraud. The OIG's success in all such investigations contributes to ensuring the continued safety and soundness of the nation's banks.

Successful Mortgage Fraud Cases

Our office has successfully investigated a number of mortgage fraud cases over the past 6 months, several of which are described below. Perpetrators of these mortgage schemes are receiving stiff penalties and restitution orders. Our involvement in such cases is supplemented by our participation in a growing number of mortgage fraud task forces. Mortgage fraud is one of the fastest growing white-collar crimes and is taking on new characteristics in the current economic crisis as perpetrators seek to take advantage of an already bad situation. Such illegal activity can cause financial ruin to homeowners and local communities. It can further impact local housing markets and the economy at large. Mortgage fraud can take a variety of forms and involve multiple individuals. We also work these and other cases based on a variety of excellent sources of referral and with partners both internal and external to the FDIC, as shown in the write-ups that follow.

Multiple Sentencings in Mortgage Fraud Case

On January 23, 2009, three individuals were sentenced in the U.S. District Court for the District

of Northern Texas for their roles in a mortgage fraud scheme. The three defendants received prison sentences ranging from 18 to 60 months, and were ordered to pay restitution totaling \$5,818,045.

From December 2002 through March 2004, the defendants and others engaged in a real estate scheme to defraud various real estate lenders, buyers and sellers, including Fremont Investment and Loan (Fremont), Brea, CA. The defendants located single family residences and then recruited straw purchasers and borrowers to purchase and finance the residences. Fraudulent loan documents were then submitted to the lenders in the name of the straw borrowers falsely indicating that down payments had been made by the borrowers. One of the defendants, who worked for a title company, would release the loan proceeds early to other conspirators, who would then purchase cashier's checks in the name of the straw borrowers to represent the requisite down payment. The scheme caused the mortgage lenders and financial institutions to make inflated loans; the defendants then conspired to distribute the fraudulently obtained loan proceeds among themselves and others. The defendants and others executed contracts with the straw borrowers stating they would be responsible for the loans, but they failed to fulfill their contract.

Source: Federal Bureau of Investigation (FBI). Responsible Agencies: FDIC OIG and the FBI. Prosecuted by the U.S. Attorney's Office for the Northern District of Texas.

Guilty Plea in Mortgage Fraud Case

On February 27, 2009, a Queens mortgage broker entered a guilty

plea in the U.S. District Court for the Eastern District of New York, Brooklyn, New York, to an indictment charging her for her role in a "stop foreclosure" scheme.

The indictment charged the defendant with bank fraud, wire fraud, and conspiracy to commit bank and wire fraud. The defendant and her husband were loan officers or agents of Exoro Funding and New Era Funding and operated out of offices in Queens, New York. The defendant recruited individuals whose properties were facing foreclosure and convinced these people to sell their properties to straw buyers who were also recruited by the defendant and her husband. The victims were typically promised that they could continue to live in their properties rent free while the defendants "repaired" their credit. The victims were further told that they could buy back their properties after their credit was "repaired." None of the victims either had their credit repaired or were able to buy back their property. After the defendants recruited the straw buyers, they, together with others, fraudulently obtained mortgage loans for the strawbuyers.

Source: Suspicious Activity Reports. Responsible Agencies: FBI and FDIC OIG. Prosecuted by the U. S. Attorney's Office, Eastern District of New York.

Illinois Mortgage Broker is Sentenced in a Real Estate Land Flipping Scheme

On January 22, 2009, a mortgage broker was sentenced in the U.S. District Court for the Central District of Illinois to 78 months of imprisonment, to be followed by 60 months of supervised release. Restitution in the amount of \$1,752,445 was also ordered.

From 1999 through 2005, the defendant, along with others, engaged in a real estate “land flipping” scheme to defraud real estate lenders, buyers, and sellers. The scheme involved more than 150 fraudulent real estate sales and financing transactions totaling more than \$8 million and resulted in the fraudulent receipt of more than \$3 million, which the parties converted to their personal use or used to promote their ongoing scheme.

Source: Request from U.S. Attorney’s Office, Central District of Illinois. Responsible Agencies: FBI, FDIC OIG, and the U.S. Postal Inspection Service. Prosecuted by the U.S. Attorney’s Office, Central District of Illinois.

Former Manager of Nations Home Lending Sentenced for Participating in a Mortgage Loan Fraud Scheme

On February 17, 2009, a former manager of Nations Home Lending, a division of Sutton Bank, Attica, Ohio, was sentenced in the U.S. District Court for the Southern District of Ohio, to 51 months of incarceration, to be followed by 3 years of supervised release. He was also ordered to pay \$645,925 in restitution.

The defendant acquired residential real estate and two mortgages in his own name by making false

statements regarding his income. He then refinanced the mortgages and created false documents, such as a Satisfaction of Mortgage, to deceive the parties associated with the refinanced transactions. In doing so, the defendant directly obtained the loan proceeds for his personal benefit instead of using the loan proceeds to pay off the mortgages. The value of these two mortgages was \$2.3 million.

Source: Division of Supervision and Consumer Protection (DSC), Chicago Region. Responsible Agencies: FBI, FDIC OIG, and the U.S. Postal Inspection Service. Prosecuted by the U.S. Attorney’s Office, Southern District of Ohio.

Accountant Pleads Guilty in Mortgage Fraud Case

On October 6, 2008, a practicing accountant entered a guilty plea in the U.S. District Court for the Eastern District of New York, Brooklyn, New York, to a criminal information charging him with conspiracy to commit wire fraud.

The defendant is an accountant who operates a practice on Long Island, New York. At the request of other co-conspirators, the defendant provided false and fraudulent tax returns and other documents to support false statements on mortgage applications related to the borrower’s income.

Source: Request from the U.S. Attorney, Eastern District of New York, Brooklyn, New York. Responsible Agencies: Immigration and Customs Enforcement, FDIC OIG, and the Internal Revenue Service, Criminal Investigation Division. Prosecuted by the U.S. Attorney’s Office, Eastern District of New York.

| Keeping Current with Mortgage Fraud Activities Nationwide | |
|--|---|
| The FDIC OIG participates in the Department of Justice’s Operation Malicious Mortgage and in the following mortgage fraud working groups throughout the country. We benefit from the perspectives, experience, and expertise of all parties involved in combating the growing incidence of mortgage fraud schemes. | |
| National Bank Fraud Working Group | National Mortgage Fraud Working Sub-group. |
| Northeast Region | Long Island Mortgage Fraud Task Force, Eastern District New York Mortgage Fraud Task Force; the Northern Virginia Real Estate Fraud Initiative Working Group, Manassas, Virginia; the New England Mortgage Fraud Working Group. |
| Southeast Region | Middle District of Florida Mortgage and Bank Fraud Task Force, Southern District of Florida Mortgage Fraud Working Group, Northern District of Georgia Mortgage Fraud Task Force, Eastern District of North Carolina Bank Fraud Task Force. |
| Midwest Region | Chicago Mortgage Fraud Task Force, Dayton Area Mortgage Fraud Task Force, Cincinnati Area Mortgage Fraud Task Force, St. Louis Mortgage Fraud Task Force, Kansas City Mortgage Fraud Task Force. |
| Southwest Region | Seattle Mortgage Fraud Working Group, FBI Seattle Mortgage Fraud Task Force, Mortgage Fraud Task Force for the Southern District of Mississippi, Oklahoma City Financial Crimes Suspicious Activity Report Review Work Group, North Texas Mortgage Fraud Working Group, the Eastern District of Texas Mortgage Fraud Task Force, the Texas Attorney General’s Residential Mortgage Fraud Task Force, Houston Mortgage Fraud Task Force, and the Los Angeles Mortgage Fraud Working Group. |

Other Investigative Case Results

Multiple Sentencings in New Jersey Home Equity Line of Credit Fraud Case

During the period December 9-12, 2008, 12 defendants were sentenced for their roles in a scheme to fraudulently obtain more than \$20 million in home equity loans and business lines of credit. Victims include at least 16 different lenders in northern New Jersey, including Woori American Bank and Royal Asian Bank.

Three of the defendants were loan brokers with American Macro Growth (AMG), in Palisades Park, New Jersey. AMG employees helped other defendants use the same properties as collateral for multiple home equity lines of credit or "HELOCs," even though the loan amounts far exceeded the value of the properties that were to serve as security. AMG misrepresented clients' income and other important information in order to increase the amounts that clients would be eligible to borrow. AMG regularly submitted falsified income tax returns on behalf of its clients while applying for lines of credit. The falsified income tax returns grossly inflated the clients' income to create the illusion that the applicants would be able to repay the loans.

In a HELOC, a borrower pledges the equity in the borrower's property as security for the line of credit. The bank's security interest in the property is then publicly recorded so that other lenders will be aware of prior claims on the property. The defendants executed the scheme by closing on multiple HELOCs in a short period of time so that the earlier lenders' security

interests would not yet be publicly recorded. Sentences ranged from 2 to 20 months, and restitution orders totaled \$12,967,385.

Source: Request from the U.S. Attorney's Office, District of New Jersey, Newark, New Jersey. Responsible Agencies: FBI and FDIC OIG. Prosecuted by the U. S. Attorney's Office, District of New Jersey.

Contractor Sentenced in Bribery and Kickback Case

On November 21, 2008, a former contractor for Mercantile-Safe Deposit & Trust Company (Mercantile), Baltimore, Maryland, was sentenced to serve 2 months in home confinement and 24 months of supervised release after his period of confinement ends. The defendant was also ordered to pay restitution of \$87,500.

The defendant was an electrical engineer and computer technician who worked for a business known as EMAX Electric. In early 2003, the defendant established his own business, EMAX Technology. Both during the period when he was working for EMAX Electric and once he established his own business as EMAX Technology, the defendant spent most of his time working at the Mercantile headquarters building on various electrical wiring and computer-related tasks. While he was working for the bank, the defendant was supervised by a former Mercantile senior vice president. (The former Mercantile senior vice president was convicted and sentenced during a previous reporting period.) Among other things, the former senior vice president's responsibilities included selecting vendors to provide information technology (IT) services to Mercantile; reviewing the performance of vendors supplying IT

services to the bank; and authorizing payment by or on behalf of the bank for IT services.

During the summer of 2002, the former senior vice president learned that there was an unused balance of approximately \$400,000 in Mercantile's "soft dollars" account at UBS Warburg. In return for utilizing UBS Warburg to conduct trades of stocks and bonds, Mercantile accumulated "soft dollar" credits. Brokers like UBS Warburg typically set aside a percentage of the commissions charged for securities transactions as a credit or rebate that may be used by their clients to purchase "soft dollar" services. "Soft dollar" services typically consist of investment-related data or products, such as research reports pertaining to companies or computer software, that assist clients in either selecting or valuing securities. The former senior vice president devised a scheme to defraud Mercantile and its customers of the \$400,000.

In the late winter and spring of 2003, Mercantile's former senior vice president began to use the defendant's new business, EMAX Technology, as an intermediary for what were supposed to be purchases of computer hardware and software for Mercantile from a company known as Computer & Data Consultants, Inc. (C&DC). The defendant received invoices from C&DC reflecting hardware and software items supposedly delivered directly to the former senior vice president at Mercantile. The defendant calculated a mark-up on the amount of C&DC's invoice and then submitted an EMAX Technology invoice for the revised amount to the former senior vice president.

Once the defendant received payment from Mercantile, he then issued a check to C&DC in the amount of its original invoice. The defendant had no direct contacts with anyone at C&DC, and never personally handled or transmitted any of the hardware or software items that C&DC was supposedly providing to Mercantile.

In late November or early December 2003, while he was still working at Mercantile, the defendant was questioned by another Mercantile bank officer about some of his work with the institution. The defendant subsequently called the former senior vice president to let him know that questions were being raised about the transaction. The two men agreed to meet at the former senior vice president's residence. At this meeting, the defendant told the former senior vice president that he knew someone whom he could hire to prepare documents that could be supplied to Mercantile to make it appear that the subject work had actually been performed. The former senior vice president agreed to pay the defendant a total of \$87,500 in return for generating documents that could be supplied to Mercantile in response to the questions that were being raised about the project.

Source: Request from the FDIC New York Regional Office, DSC. Responsible Agencies: FBI, FDIC OIG, and the U.S. Postal Inspection Service. Prosecuted by the U.S. Attorney's Office, District of Maryland.

Bank Customer Sentenced for Bank Fraud

October 23, 2008, a bank customer was sentenced in the U.S. District Court for the Western District of Wisconsin to 100 months of

incarceration to be followed by 5 years of supervised release. He was ordered to pay restitution to the FDIC in the amount of \$3,445,981. The defendant was immediately remanded into custody at the sentencing hearing.

The defendant, who formerly operated a used car business in Blanchardville, Wisconsin, known as Trucks-4-U, engaged in a scheme to defraud the First National Bank of Blanchardville (FNBB), Blanchardville, Wisconsin. To carry out the scheme, the defendant deposited approximately \$15 million worth of either NSF or closed account credit card checks into his accounts at FNBB for the purpose of fraudulently reducing substantial overdrafts in the accounts. As a result of the scheme to defraud, the defendant received approximately \$6.1 million in fraudulently obtained loans from FNBB and thereafter defaulted on the loans, causing a loss to FNBB of approximately \$3.8 million. FNBB lost an additional \$250,000 as a result of overdraft accounts when FNBB was closed by the Office of the Comptroller of Currency.

Source: Division of Resolutions and Receiver-ships (DRR). Responsible Agencies: FBI; FDIC OIG; Internal Revenue Service, Criminal Investigation Division; and Department of Agriculture OIG. Prosecuted by the U.S. Attorney's Office, Western District of Wisconsin.

Hotel Operator Pleads Guilty to Defrauding a Financial Institution

On October 2, 2008, a hotel operator entered a guilty plea in the U.S. District Court for the District of Vermont to a criminal information charging him with conspiracy, making false statements in connection with commercial loan applications, and

knowingly hiring illegal aliens.

According to the information, in 2003, the defendant obtained a commercial construction loan of approximately \$4 million from Chittenden Trust Company (Chittenden), Burlington, Vermont, for the purpose of building a Hampton Inn in Brattleboro, Vermont. The defendant allegedly conspired with a construction contractor to inflate the stated cost of the construction project. Two separate construction contracts were completed. One of the contracts between the parties referenced the true construction cost; the other contract reflected inflated cost figures. The inflated cost figures were given to Chittenden, and the loan was based on those false figures. During the course of the construction project, a series of percentage of completion construction draw requests were submitted based on the false contract amount; Chittenden paid those draw requests.

Also, between 2003 and 2006, the defendant received a series of additional commercial loans from Chittenden, valued at approximately \$4.9 million. The defendant allegedly falsified his operating entities' books and records by inflating revenue to make it appear that his properties were operating profitably. Chittenden approved and funded the loans based, in part, on the financial statements.

The defendant also admitted that he hired at least 10 individuals whom he knew to be illegal aliens.

Source: Request for assistance from the U.S. Attorney's Office for the District of Vermont and the FBI. Responsible Agencies: FBI, Immigration and Customs Enforcement, FDIC OIG. Prosecuted by the U.S. Attorney's Office, District of Vermont.

Former Bank Operations Manager Sentenced

On March 17, 2009, in the Colorado District Court for the 14th Judicial District, a former bank operations supervisor of Alpine Bank, Steamboat Springs, Colorado, was sentenced to 96 months of incarceration to be followed by 60 months of mandatory parole. The defendant was also ordered to pay \$1,386,390 in restitution and several thousand dollars in court fees.

The defendant and an accomplice embezzled approximately \$1.4 million from Alpine Bank. (The defendant's accomplice, a former Alpine Bank teller, was also sentenced to 96 months of incarceration during a previous reporting period.) The defendants created internal documents called "Advice of Charges," forged customer signatures to the documents, and made unauthorized cash withdrawals from customer accounts. In an attempt to conceal their theft, "hold mail" was placed on the customer accounts to prevent the customers from receiving their monthly account statements and discovering the unauthorized debit transactions.

Source: Suspicious Activity Report and the Steamboat Springs Police Department. Responsible Agencies: FDIC OIG, Steamboat Police Department, and Routt County Sheriff's Office. Prosecuted by Routt County, Colorado, District Attorney.

Former Bank International Operations Manager Sentenced

On February 18, 2009, a former international operations manager for Center Bank (Center), Los Angeles, California, was sentenced in the U.S. District Court for the Central District of California, Los Angeles, California, for bank

embezzlement. The defendant was sentenced to serve 18 months in prison to be followed by 36 months of supervised release; she was also ordered to pay restitution of \$330,724.

The defendant embezzled funds from Center through unauthorized debit/credit activities involving commercial bank accounts, unauthorized fund disbursements through fraudulent block deposit entries, and misdirection of customer deposits. The proceeds from these illegal activities were diverted, using the bank's computer system, to individual and business bank accounts controlled by the defendant.

Source: Suspicious Activity Report. Responsible Agencies: FBI and the FDIC OIG. Prosecuted by the U.S. Attorney's Office, Central District of California.

Former Bank Officer Sentenced

On February 17, 2009, a former branch manager and loan officer for Banner Bank (Banner), Walla Walla, Washington, was sentenced in the U.S. District Court for the Eastern District of Washington to 12 months and 1 day of incarceration to be followed by 5 years of supervised release. The defendant was also ordered to perform 240 hours of community service and pay restitution of \$440,042.

From December 2005 through April 2006, the defendant devised a scheme to defraud Banner. As a branch manager and loan officer for Banner, the defendant made approximately 40 unauthorized and undisclosed monetary advances on one bank customer's credit line. He then used the money to "gap fund" or pre-fund loans or line increases for other bank customers before their loan

applications were approved. The pre-funding of loans resulted in an increased volume of new loans that benefited the defendant with high performance ratings, bonuses, promotions, and a "Banner's Best" recognition award, as well as several raises.

The defendant knew that the loan applications would require more scrutiny, and that Banner would have required additional collateral. He manipulated numerous loan documents in order to obtain credit approvals for select customers. The documents manipulated by the defendant included credit bureau reports, appraisal reports, and on-line tax assessment evaluations. The defendant also misrepresented and altered real estate values, borrower income, and credit histories and subsequently approved loan applications that he knew to be fictitious.

Source: Suspicious Activity Report. Responsible Agencies: FBI and FDIC OIG. Prosecuted by the U.S. Attorney's Office for the Eastern District of Washington.

Former Bank President Indicted and Pleads Guilty

On February 13, 2009, a two-count information was filed charging the former president of the Benton Banking Company (Benton), Benton, Tennessee, with misapplication of bank funds. On March 31, 2009, the defendant entered a guilty plea to the charges in the U.S. District Court for the Eastern District of Tennessee.

The defendant embezzled approximately \$1.3 million beginning in 2002 and used the proceeds for his own personal use. He admitted to funding false loans totaling \$4 million to shell limited liability companies that were owned by

a Benton bank customer. The purpose of these loans was to enable the bank customer to list these funds as “outside investors” on loan applications to other institutions, so that the bank customer could repay Benton for \$2 million in legitimate loans and \$2 million in overdrafts that had been disguised as loans to third parties.

Source: FDIC DSC. Responsible Agencies: FBI and FDIC OIG. Prosecuted by the U. S. Attorney's Office for the Eastern District of Tennessee.

Multiple Sentencings in Bank Bribery and Bank Fraud Case

On October 17, 2008, a bank customer was sentenced in the U.S. District Court for the Southern District of West Virginia, to serve 97 months in prison, to be followed by 60 months of supervised

release, and was ordered to pay restitution of \$3,343,298 for his role in a bank bribery and mail fraud scheme to fund his investments. Two other defendants, former officers of First National Bank of Ronceverte, Ronceverte, West Virginia, were sentenced to serve 5 months and 9 months, respectively, and will each be on supervised release for 36 months after they serve their prison sentences. The former officers were also fined \$50,000 and \$75,000, respectively.

Our investigation established that the customer bribed the two other defendants while they were officers at the First National Bank of Ronceverte. A \$10,000 bribe was made to influence the officers to advance over \$4 million in loan proceeds to the customer

when he did not qualify for the loans. In 2005 and 2006, the customer mailed false financial statements to BB&T, Charles, West Virginia, and the First National Bank of Ronceverte, which falsely inflated his assets and understated his liabilities. He received loan proceeds based on the false financial statements. The defendant used approximately \$4.2 million in funds he received from the banks for his personal use.

Source: U.S. Attorney's Office. Responsible Agencies: FBI and FDIC OIG. Prosecuted by the U.S. Attorney's Office for the Southern District of West Virginia.

Sentencing of Former Bank Loan Officer

On December 2, 2008, a former loan officer for Peoples Independent Bank (Peoples), Boaz, Alabama, entered a guilty plea in Blount County, Alabama, to theft of property and was sentenced. He was given a split sentenced of 2 years in jail and 5 years of probation. The defendant was also ordered to pay \$321,946. He also agreed to consent to an Order of Prohibition from Further Participation pursuant to section 8(e) of the FDI Act.

Our investigation disclosed that the former loan officer, over a 2-year period, embezzled over \$320,000 in bank funds by diverting bank customers' funds to himself.

Source: FDIC DSC. Responsible Agencies: FBI and FDIC OIG. Prosecuted by the Blount County Alabama District Attorney's Office.

Strong Partnerships with Law Enforcement Colleagues

The OIG has partnered with many U.S. Attorneys' Offices throughout the country in bringing to justice individuals who have defrauded the FDIC or financial institutions within the jurisdiction of the FDIC, or criminally impeded the FDIC's examination and resolution processes. The alliances with the U.S. Attorneys' Offices have yielded positive results during this reporting period. Our strong partnership has evolved from years of hard work in pursuing offenders through parallel criminal and civil remedies resulting in major successes, with harsh sanctions for the offenders. Our collective efforts have served as a deterrent to others contemplating criminal activity and helped maintain the public's confidence in the nation's financial system.

During the reporting period, we partnered with U.S. Attorneys' Offices in the following states: Alabama, Arizona, Arkansas, California, Florida, Georgia, Illinois, Iowa, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Utah, Vermont, Washington, and West Virginia.

We also worked closely with the Department of Justice, FBI, other OIGs, state and local law enforcement officials, and FDIC divisions and offices as we conducted our work during the reporting period.

2

STRATEGIC GOAL 2: **The OIG Will Help the FDIC Maintain the Viability of the Insurance Fund**

Federal deposit insurance remains a fundamental part of the FDIC's commitment to maintain stability and public confidence in the Nation's financial system. With enactment of the Emergency Economic Stabilization Act of 2008, the limit of the basic FDIC deposit insurance coverage was raised temporarily from \$100,000 to \$250,000 per depositor, through December 31, 2009. A priority for the FDIC is to ensure that the DIF remains viable to protect depositors in the event of an institution's failure. This fund was at \$18.9 billion as of the fourth quarter of 2008—this compared to a balance of \$52.4 billion as of the fourth quarter of 2007. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

The FDIC, in cooperation with the other primary federal regulators, proactively identifies and evaluates the risk and financial condition of every insured depository institution. The FDIC also identifies broader economic and financial risk factors that affect all insured institutions. The FDIC is committed to providing accurate and timely bank data related to the financial condition of the banking industry. Industry-wide

trends and risks are communicated to the financial industry, its supervisors, and policymakers through a variety of regularly produced publications and ad hoc reports. Risk management activities include approving the entry of new institutions into the deposit insurance system, off-site risk analysis, assessment of risk-based premiums, and special insurance examinations and enforcement actions. In light of increasing globalization and the interdependence of financial and economic systems, the FDIC also supports the development and maintenance of effective deposit insurance and banking systems world-wide.

Primary responsibility for identifying and managing risks to the DIF lies with the FDIC's Division of Insurance and Research, DSC, and DRR. To help integrate the risk management process, the FDIC established the National Risk Committee (NRC), a cross-divisional body. Also, a Risk Analysis Center monitors emerging risks and recommends responses to the NRC. In addition, a Financial Risk Committee focuses on how risks impact the DIF and financial reporting.

Large banks pose unique risks to the DIF, as illustrated by the failure of IndyMac Bank, FSB (IndyMac)

in July 2008, which caused an estimated \$10.7 billion loss to the DIF. Over recent years, the consolidation of the banking industry has resulted in fewer and fewer financial institutions controlling an ever expanding percentage of the Nation's financial assets. In recent years, the FDIC has taken a number of measures to strengthen its oversight of the risks to the insurance fund posed by the largest institutions, and its key programs include the following:

- Large Insured Depository Institution Program,
- Dedicated Examiner Program,
- Shared National Credit Program, and
- Off-site monitoring systems.

The Congress enacted deposit insurance reform in early 2006 to give the FDIC more discretion in managing the DIF and allow the Corporation to better price deposit insurance based on risk. In light of recent economic events, the Board has taken a number of actions in this regard. The assessment system has been modified, and the Corporation adopted a restoration plan in October 2008 to increase the reserve ratio to the 1.15 percent threshold within 5 years. In February 2009, the Board invoked the "extraordinary

circumstances” provision of the FDI Act and voted to extend the restoration plan horizon to 7 years.

To help the FDIC maintain the viability of the DIF, the **OIG’s 2009 performance goal** is as follows:

- Evaluate corporate programs to identify and manage risks in the banking industry that can cause losses to the fund.

We would note that the OIG’s audit and evaluation work referenced in Goal 1 also fully supports the goal of maintaining the viability of the DIF. Each material loss, by definition, causes a loss to the DIF. The OIG’s MLR work is designed to help prevent such losses in the future. Similarly, investigative activity described in Goal 1 also fully supports the strategic goal of helping to maintain the viability of the DIF. The OIG’s efforts often lead to successful prosecutions of fraud in financial institutions, and/or fraud that can cause losses to the fund.

OIG Work in Support of Goal 2

As of the end of the reporting period, we had completed one audit in this strategic goal area. As described below, we assessed the Corporation’s internal controls for performing off-site monitoring activities of insured depository institutions. Another ongoing audit in support of this goal area involves the FDIC investment program. We contracted with KPMG, LLP to perform an audit of the FDIC investment program, including the DIF portfolio and the National Liquidation Fund. The audit objective is to assess the FDIC’s controls for ensuring that the DIF and National Liquida-

tion Fund portfolios are managed consistent with the FDIC’s approved investment policies, procedures, and practices. This assignment is a follow-on to work we conducted in 2005 related to the FDIC’s investment policies. The FDIC Chairman at the time requested that the OIG conduct an independent audit of the corporate investment program every 3 years and include the investment policies applicable to the National Liquidation Fund. Also at the end of the reporting period, we were conducting an evaluation related to the IndyMac failure, focusing on such areas as the FDIC’s monitoring and awareness of the institution and the actions it took as back-up regulator and deposit insurer.

FDIC’s Controls Related to the Offsite Review List

The federal banking agencies, including the FDIC, have developed a number of tools for monitoring the health of individual institutions and the industry as a whole. The FDIC has developed eight offsite systems to monitor insured institutions between examinations. Three of these systems are used to produce the Offsite Review List (ORL), which identifies insured institutions with potential problems. Within the FDIC, DSC is responsible for performing offsite monitoring of FDIC-insured depository institutions.

During the reporting period, we conducted an audit to assess DSC’s internal controls for performing offsite monitoring of insured financial institutions. The audit focused on the controls related to offsite

reviews of institutions on the ORL. As part of our audit, we also reviewed DSC’s implementation of a recommendation by the Government Accountability Office (GAO) for strengthening the FDIC’s risk assessment activities through periodic evaluations and monitoring of the Corporation’s offsite monitoring systems.

Our audit determined that DSC has established internal controls for performing offsite monitoring of insured financial institutions. Specifically, each institution on the ORL must have an offsite review completed and approved within 3 months after the end of each quarter. We sampled 60 of the 577 institutions on the December 31, 2007 ORL and found that DSC had completed offsite reviews for each sampled institution, developed supervisory strategies, and documented the reviews in accordance with DSC policies and procedures.

Additionally, DSC has initiated a process for periodically evaluating its offsite monitoring systems in response to a February 2007 GAO recommendation to evaluate and monitor these systems. DSC plans to evaluate, on a rotational basis, its offsite monitoring systems. However, at the time of our audit, no details regarding a schedule or procedures for conducting evaluations were available, and no system evaluations had been performed.

Although the FDIC has developed an extensive offsite monitoring program, we reported that opportunities exist for improvement. Specifically, we found that the ORL was not capturing a significant percentage of institutions that DSC, through its risk management examina-



tions, downgraded to a 3 rating or worse, including many of the institutions that ultimately failed.

We therefore recommended that DSC: (1) validate the assumptions and methodology used in the Statistical CAMELS Off-site Rating; (2) ensure that the regular evaluations of all offsite monitoring systems used to create the ORL are performed as scheduled; and (3) establish procedures to evaluate all models-based offsite monitoring systems and, as part of these procedures, consider recent failure and downgrade information to test the efficacy of the logic and assumptions used in the offsite monitoring systems. In its response to the audit, DSC stated that it concurred with the recommendations and completed the recommended actions. Additionally, DSC provided comments regarding the accuracy of the ORL as a predictive tool and stated that DSC had completed the first of the GAO-recommended evaluations.

3

STRATEGIC GOAL 3: **The OIG Will Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy**

Consumer protection laws are important safety nets for Americans. The U.S. Congress has long advocated particular protections for consumers in relationships with banks. For example:

- The **Community Reinvestment Act** encourages federally insured banks to meet the credit needs of their entire community.
- The **Equal Credit Opportunity Act** prohibits creditor practices that discriminate based on race, color, religion, national origin, sex, marital status, or age.
- The **Home Mortgage Disclosure Act** was enacted to provide information to the public and federal regulators regarding how depository institutions are fulfilling their obligations towards community housing needs.
- The **Fair Housing Act** prohibits discrimination based on race, color, religion, national origin, sex, familial status, and handicap in residential real-estate-related transactions.
- The **Gramm-Leach Bliley Act** eliminated barriers preventing the affiliations of banks with securities firms and insurance companies and mandates new privacy rules.
- The **Truth in Lending Act** requires meaningful disclosure

of credit and leasing terms.

- The **Fair and Accurate Credit Transaction Act** further strengthened the country's national credit reporting system and assists financial institutions and consumers in the fight against identity theft.

The FDIC serves a number of key roles in the financial system and among the most important is its work in ensuring that banks serve their communities and treat consumers fairly. The FDIC carries out its role by providing consumers with access to information about their rights and disclosures that are required by federal laws and regulations and examining the banks where the FDIC is the primary federal regulator to determine the institutions' compliance with laws and regulations governing consumer protection, fair lending, and community investment. As a means of remaining responsive to consumers, the FDIC's Consumer Response Center investigates consumer complaints about FDIC-supervised institutions and responds to consumer inquiries about consumer laws and regulations and banking practices.

Recent events in the credit and mortgage markets present regulators, policymakers, and the financial services industry with serious challenges. The FDIC Chairman is

committed to working with the Congress and others to ensure that the banking system remains sound and that the broader financial system is positioned to meet the credit needs of the economy, especially the needs of creditworthy households that may experience distress. Another important priority is financial literacy. The Chairman has promoted expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream.

Consumers today are also concerned about data security and financial privacy. Banks are increasingly using third-party servicers to provide support for core information and transaction processing functions. Of note, the increasing globalization and cost saving benefits of the financial services industry are leading many banks to make greater use of foreign-based service providers. The obligations of a financial institution to protect the privacy and security of information about its customers under applicable U.S. laws and regulations remain in full effect when the institution transfers the information to either a domestic or foreign-based service provider.

Every year fraud schemes rob depositors and financial institutions of millions of dollars. The

OIG's Office of Investigations can identify, target, disrupt, and dismantle criminal organizations and individual operations engaged in fraud schemes that target our financial institutions or that prey on the banking public. OIG investigations have identified multiple schemes that defraud depositors. Common schemes range from identity fraud to Internet scams such as "phishing" and "pharming."

The misuse of the FDIC's name or logo has also been identified as a scheme to defraud depositors. Such misrepresentations have led depositors to invest on the strength of FDIC insurance while misleading them as to the true nature of the investment products being offered. These depositors have lost millions of dollars in the schemes. The OIG has been a strong proponent of legislation to address such misrepresentations. We are pleased that the Emergency Economic Stabilization Act of 2008, signed by the former President on October 3, 2008 contains provisions that address this issue.

Investigative work related to such fraudulent schemes is ongoing and will continue. With the help of sophisticated technology, the OIG continues to work with FDIC divisions and other federal agencies to help with the detection of new fraud patterns and combat existing fraud. Coordinating closely with the Corporation and the various U.S. Attorneys' Offices, the OIG will help to sustain public confidence in federal deposit insurance and goodwill within financial institutions.

To assist the FDIC to protect consumer rights and ensure customer data security and

privacy, the **OIG's 2009 performance goals** are as follows:

- Contribute to the effectiveness of the Corporation's efforts to ensure compliance with consumer protections at FDIC-supervised institutions.
- Support corporate efforts to promote fairness and inclusion in the delivery of products and services to consumers and communities.
- Conduct investigations of fraudulent representations of FDIC affiliation or insurance that negatively impact public confidence in the banking system.

OIG Work in Support of Goal 3

During the reporting period, at the Chairman's request, our evaluations group conducted work in the area of enforcement actions for compliance violations. Investigative work related to protection of personal information also supported this strategic goal area during the reporting period, as described below.

Enforcement Actions for Compliance Violations

We conducted an evaluation at the request of the FDIC Chairman to determine: to what extent the FDIC issues formal enforcement actions to address certain compliance violations and deficiencies; the factors, conditions, and circumstances involved in determining whether and what type of enforcement action is initiated; and the efficiency of the FDIC's process for initiating, reviewing, and issuing formal

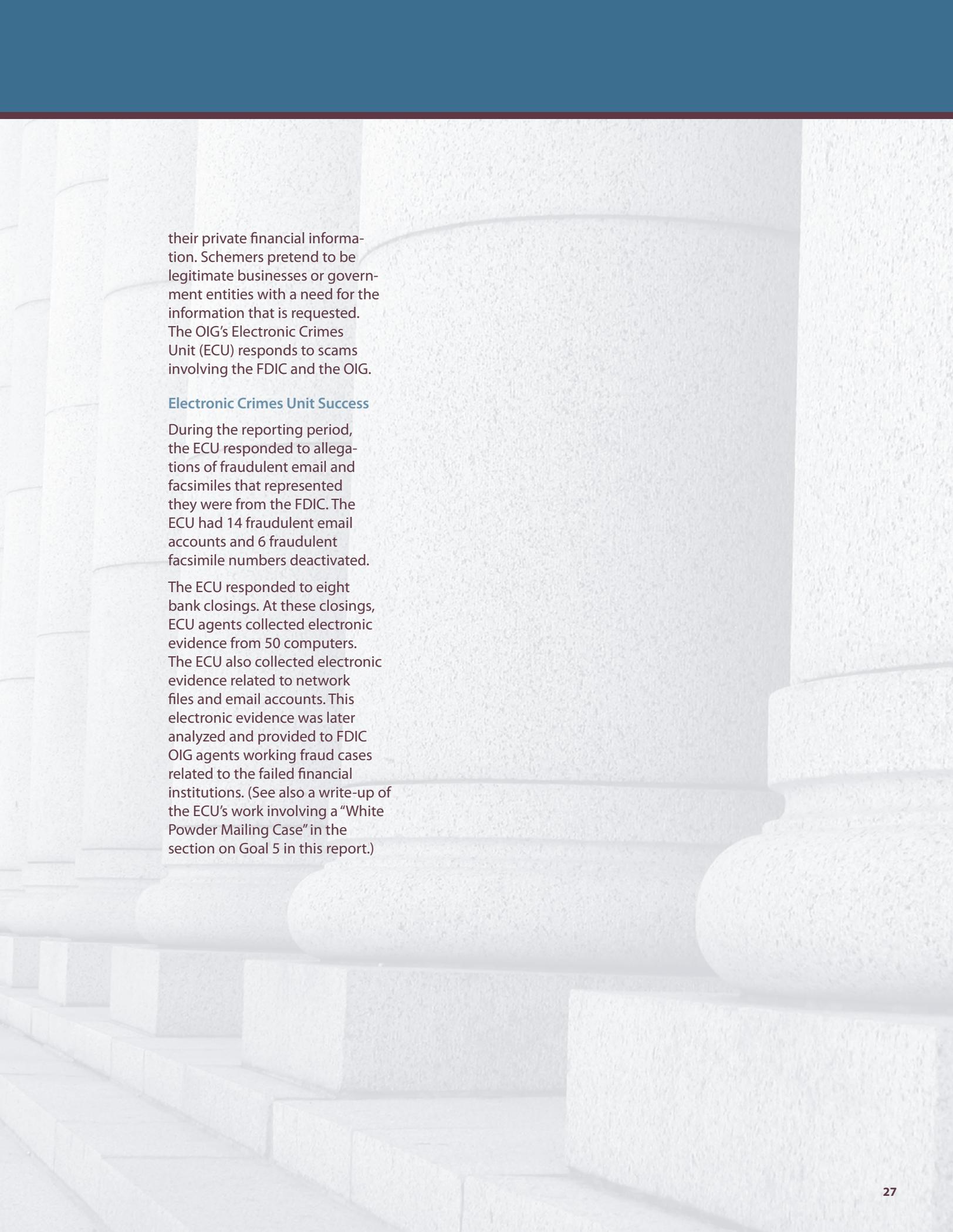
enforcement actions, particularly fair lending-related referrals or enforcement actions.

We presented the results of our evaluation to the Chairman, including a description of actions the FDIC had taken and planned that were responsive to our findings and suggestions. In our view, management's response indicated a willingness and commitment to devote sufficient resources and improve processes associated with carrying out the Home Mortgage Disclosure Act outlier program, conducting fair lending examinations, and pursuing related enforcement actions.

Office of Investigations Works to Curtail Misrepresentation of FDIC Insurance or Affiliation and Identity Theft Schemes

Unscrupulous individuals sometimes attempt to misuse the FDIC's name, logo, abbreviation, or other indicators to suggest that deposits or other products are fully insured. Such misrepresentations induce the targets of schemes to trust in the strength of FDIC insurance while misleading them as to the true nature of the insurance investments being offered. Abuses of this nature harm consumers and can also erode public confidence in federal deposit insurance. Our Office of Investigations works to counteract these abuses and also partners with others to pursue cases of this type.

Identity theft also continues to become more sophisticated, and the number of victims is growing. Identity theft includes using the Internet for crimes such as "phishing" emails and "pharming" Web sites that attempt to trick people into divulging



their private financial information. Schemers pretend to be legitimate businesses or government entities with a need for the information that is requested. The OIG's Electronic Crimes Unit (ECU) responds to scams involving the FDIC and the OIG.

Electronic Crimes Unit Success

During the reporting period, the ECU responded to allegations of fraudulent email and facsimiles that represented they were from the FDIC. The ECU had 14 fraudulent email accounts and 6 fraudulent facsimile numbers deactivated.

The ECU responded to eight bank closings. At these closings, ECU agents collected electronic evidence from 50 computers. The ECU also collected electronic evidence related to network files and email accounts. This electronic evidence was later analyzed and provided to FDIC OIG agents working fraud cases related to the failed financial institutions. (See also a write-up of the ECU's work involving a "White Powder Mailing Case" in the section on Goal 5 in this report.)

4

STRATEGIC GOAL 4: **The OIG Will Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships**

The FDIC protects depositors of insured banks and savings associations. In the FDIC's history, no depositor has experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. One of the FDIC's most important roles is acting as the receiver or liquidating agent for failed FDIC-insured institutions. The success of the FDIC's efforts in resolving troubled institutions has a direct impact on the banking industry and on the taxpayers.

DRR's responsibilities include planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and efficient administration of failing and failed financial institutions in order to maintain confidence and stability in our financial system.

- The **resolution process** involves valuing a failing federally insured depository institution, marketing it, soliciting and accepting bids for the sale of the institution, considering the least costly resolution method, determining which bid to accept, and working with the acquiring institution through the closing process.
- The **receivership process** involves performing the closing function at the

failed bank; liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims.

The FDIC's resolution and receivership activities pose tremendous challenges. As indicated by the trends in mergers and acquisitions, banks have become more complex, and the industry is consolidating into larger organizations. As a result, the FDIC has been called upon to handle failing institutions with significantly larger numbers of insured deposits than it has had to deal with in the past.

During 2008, 25 FDIC-insured institutions failed, with total assets at failure of \$361.3 billion and total losses to the DIF of about \$17.9 billion. During the first 4 months of 2009, another 29 institutions have failed, with total assets at failure of \$14.7 billion and an estimated loss to the DIF of about \$3.9 billion. To meet the workload demands associated with these and future failures, DRR has been authorized to hire both permanent and temporary employees. DRR is also taking advantage of the Corporation's cross-training to create a flexible workforce where examiners can support resolution activities, and resolution specialists can support examination activities.

While OIG audits and evaluations address various aspects of resolution and receivership activities, OIG investigations benefit the Corporation in other ways. That is, in the case of bank closings where fraud is suspected, our Office of Investigations (OI) sends case agents and computer forensic special agents from the ECU to the institution. ECU agents use special investigative tools to provide computer forensic support to OI's investigations by obtaining, preserving, and later examining evidence from computers at the bank. As referenced earlier, during the reporting period, OI attended eight bank closings and provided forensics support for those.

The OIG also coordinates closely with DRR on concealment of assets cases. In many instances, the FDIC debtors do not have the means to pay fines or restitution owed to the Corporation. However, some individuals do have the means to pay but hide their assets and/or lie about their ability to pay. OI works closely with both DRR and the Legal Division in aggressively pursuing criminal investigations of these individuals.

To help ensure the FDIC is ready to resolve failed banks and effectively manages receiverships, the **OIG's 2009 performance goals** are as follows:

- Evaluate the FDIC's plans and systems for managing bank resolutions.
- Investigate crimes involved in or contributing to the failure of financial institutions or which lessen or otherwise affect recoveries by the DIF, involving restitution or otherwise.

OIG Work in Support of Goal 4

During the reporting period, the OIG planned a number of new assignments in this goal area, largely in response to events involving resolution and receivership of institutions. These efforts are briefly discussed below:

Planned Work Focuses on New Resolution and Receivership Challenges

The resolution and receivership activity is a vulnerable area where independent oversight and review are essential. We are, at present, planning to undertake two evaluations in areas where we believe FDIC has the most exposure. One evaluation will identify and evaluate controls in place over the contracting and legal services functions to address the risks presented by a significant increase in resolution and receivership-related contracting activity. A second evaluation will cover the loss share provisions, including those in the assistance agreements with Citigroup and Bank of America, to ensure compliance with all related terms, such as those involving asset eligibility and institution management of guaranteed assets.

Other areas that will receive attention are as follows:

Loan Modification Programs.

The FDIC implemented a Loan Modification Program at IndyMac Federal Bank, FSB, and the implementation of a similar program has been a condition of several large FDIC-facilitated institution sales. The goal of these programs was to achieve affordable and sustainable mortgage payments for borrowers and increase the value of distressed mortgages by rehabilitating them into performing loans. Other institutions have agreed to implement loan modification programs as part of their financial stability agreements with the FDIC and other financial regulatory agencies.

We will be assessing the FDIC's efforts for monitoring implementation of loan modification programs at institutions such as CitiBank and US Bank. We will also be looking at the former IndyMac program to evaluate the controls to detect and prevent participation in the program by those who obtained their initial loan under fraudulent pretenses.

Large Bank Failures. The failures of IndyMac and Washington Mutual Bank (WaMu) were historic, each for their own reasons. As such, we believed that an independent analysis of the activities of the regulators involved is in the public's best interest. IndyMac's failure in July 2008 was the third largest in the history of the United States. Because this institution was supervised by the Office of Thrift Supervision, the Inspector General at the Department of the Treasury conducted the MLR. However, we believe it important to determine the role the FDIC played as back-up regulator and deposit insurer. We are determining when

the FDIC became aware of the IndyMac problem; what the Corporation knew and how it knew it; and what actions the Corporation took given its knowledge of the risks posed by IndyMac.

WaMu was the largest bank failure in the history of the United States, but because the resolution structure resulted in no loss to the Fund, the threshold for conducting an MLR was not triggered. Given the size, the circumstances leading up to the resolution, and the non-Fund losses (i.e., loss of shareholder value), we are working jointly with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction. We plan to evaluate the Office of Thrift Supervision's supervision of WaMu, including implementation of PCA provisions of section 38, if required; evaluate the FDIC's supervision and monitoring of WaMu in its role as insurer; and assess the FDIC's resolution process for WaMu.

Results of this work will be presented in upcoming semiannual reports.

5

STRATEGIC GOAL 5: **The OIG Will Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources**

The FDIC must effectively manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, IT, and physical resources.

Human Resources: The FDIC's authorized staffing for 2009 is 6,269, an increase of 1,459 positions from 2008, principally due to the need to address greater receivership and resolution activity and the elevated examination workload. Most of the increase is for hiring non-permanent employees to aid in the current crisis.

Supplementing the FDIC workforce are contractors providing services for the Corporation. The FDIC awarded approximately \$652 million in contracts during 2008. As a good steward, the FDIC must ensure it receives the goods and services purchased with corporate funds and have effective contractor oversight controls in place as well.

In an age of identity theft risks, an important human capital management responsibility at the FDIC is to maintain effective controls to protect personal employee-related information that the Corporation possesses. The appointment of a chief privacy officer and implementation of a privacy program have been positive steps in addressing

that challenge. Further, the FDIC has established a process for conducting privacy impact assessments of its information systems containing personally identifiable information that is consistent with relevant privacy-related policy, guidance, and standards.

Financial Resources: The Corporation does not receive an annual appropriation, except for its OIG, but rather is funded by the premiums that banks and thrift institutions pay for deposit insurance coverage, the sale of assets recovered from failed banks and thrifts, and from earnings on investments in U.S. Treasury securities.

The FDIC Board of Directors approves an annual Corporate Operating Budget to fund the operations of the Corporation. For 2009, the approved budget totaled \$2.4 billion, an increase of \$1.03 billion from 2008. The operating budget provides resources for the operations of the Corporation's three major programs or business lines—Insurance, Supervision, and Receivership Management—as well as its major program support functions (legal, administrative, financial, IT, etc.).

In addition to the Corporate Operating Budget, the FDIC has a separate Investment Budget that is composed of individual project

budgets approved by the Board of Directors for major investment projects. Budgets for investment projects are approved on a multi-year basis, and funds for an approved project may be carried over from year to year until the project is completed. Expenditures from the Corporate Operating and Investment Budgets are paid from two funds managed by the FDIC—the DIF and the Federal Savings and Loan Insurance Corporation Resolution Fund.

IT Resources: At the FDIC, the Corporation seeks to leverage IT to support its business goals in insurance, supervision and consumer protection, and receivership management, and to improve the operational efficiency of its business processes. The FDIC needs to continue to focus on the capital planning and investment processes for IT and maximize the effectiveness of the Chief Information Officer Council and Project Management Office, both of which play an important role in reviewing the portfolio of approved IT projects and other initiatives. The Corporation has also worked to enhance its Enterprise Architecture program by identifying duplicative resources/investments and opportunities for internal and external collaboration to promote operational improve-

ments and cost-effective solutions to business requirements.

Along with the positive benefits that IT offers comes a certain degree of risk. In that regard, information security has been a long-standing and widely acknowledged concern among federal agencies. The Federal Information Security Management Act requires each agency to develop, document, and implement an agency-wide information security program to provide adequate security for the information and information systems that support the operations and assets of the agency. Section 522 of the Consolidated Appropriations Act of 2005 requires agencies to establish and implement comprehensive privacy and data protection procedures and have periodic third-party reviews performed of their privacy programs and practices.

Physical Resources: The FDIC currently employs approximately 4,900 people. It is headquartered in Washington, D.C., but conducts much of its business in six regional offices and in field offices throughout the United States. Ensuring the safety and security of the human and physical resources in those offices is a fundamental corporate responsibility that is directly tied to the Corporation's successful accomplishment of its mission. The FDIC needs to be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency.

Corporate Governance and Risk Management: The FDIC is

managed by a five-person Board of Directors, all of whom are appointed by the President and confirmed by the Senate, with no more than three being from the same political party. The Board includes the Comptroller of the Currency and the Director of the Office of Thrift Supervision. Given the relatively frequent changes in the Board make-up, it is essential that strong and sustainable governance and communication processes are in place throughout the FDIC and that Board members possess and share the information needed at all times to understand existing and emerging risks and make sound policy and management decisions.

Enterprise risk management is a key component of governance. The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Additionally, such risks need to be communicated throughout the Corporation and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved.

To promote sound governance and effective stewardship and security of human, financial, IT, and physical resources, the **OIG's 2009 performance goals are** as follows:

- Evaluate corporate efforts to manage human resources and operations efficiently, effectively, and economically.
- Promote integrity in FDIC internal operations.
- Promote alignment of IT with the FDIC's business goals and objectives.

- Promote IT security measures that ensure the confidentiality, integrity, and availability of corporate information.
- Promote personnel and physical security.
- Promote sound corporate governance and effective risk management and internal control efforts.

OIG Work in Support of Goal 5

The OIG committed a number of audit and evaluation resources to work in this strategic goal area during the reporting period. One of our evaluations examined the FDIC's Corporate Employee Program. We also performed an audit of follow-up actions taken related to the FDIC's controls over the confidentiality of sensitive email communications. Other evaluations this period focused on two security areas: mail handling and screening procedures at FDIC facilities and guard services provided to protect FDIC buildings and people. Additionally, we audited oversight management of the FDIC's contract with ARAMARK. Results of these reviews are discussed below.

Evaluation of the FDIC's Corporate Employee Program

In 2005, the FDIC initiated the Corporate Employee Program (CEP) to respond to the growing consolidation and complexity within the financial services industry. The CEP is intended to: (1) provide opportunities for FDIC employees at all levels to identify, develop, and apply skills in multiple corporate functions through various training oppor-

tunities and cross-divisional work assignments and (2) create a workforce that possesses a common corporate perspective and is capable of responding rapidly to shifting priorities and changes in workload. The FDIC's Corporate University manages the CEP.

Our objective was to assess the FDIC's efforts to implement the CEP by determining: (1) the number of employees participating and the degree to which they have completed the program, (2) whether the CEP has stated measurements for gauging program effectiveness, (3) participant and management views on the benefits and success of the program, and (4) the extent to which the CEP has produced cross-trained employees capable of responding to changes in examination or resolution and receivership priorities.

We reported that the FDIC has made progress toward implementing the CEP, particularly with respect to hiring employees and cross training them through certificate and commissioning programs. Corporate University has also drafted guidelines and procedures for the program and provided program results to key stakeholders. Most financial institution specialists are pleased with the CEP, and FDIC management generally had positive views regarding the program. Further, Corporate University has been responsive to concerns or requests for changes to the CEP. The FDIC has deployed a number of financial institution specialists and certificate holders to assist with an increase in resolution activity, and DRR staff have been complimentary of financial institution special-

ists' efforts—an indication of the program's positive impact to date.

We made six recommendations for incremental program improvement as the Corporation continues to refine its program related to enhancing and finalizing CEP draft policy, establishing performance goals, improving how CEP costs are identified and measured, developing a system for tracking deployments and continuing education, ensuring that employees retain and utilize the knowledge they have gained through the CEP, and clarifying plans for expanding the program. Management concurred with five of the recommendations and agreed with the intent of the remaining recommendation. Management plans to implement corrective actions sufficient to address each recommendation.

Control Improvements Undertaken by the Division of Information Technology to Ensure the Confidentiality of Sensitive Email Communications

The FDIC uses email extensively to exchange business information internally and externally. The National Institute of Standards and Technology recommends that organizations consider the use of email content filtering technology to mitigate the risk of loss of sensitive business data.

On October 6, 2008, the Director of the FDIC's Division of Information Technology (DIT) issued a memorandum to the FDIC Chairman, summarizing the status of control improvements intended to address five specific email security issues. The Director, DIT, requested the FDIC OIG to assess DIT's actions to address

the five issues. The Director, DIT, also separately requested that the OIG assess DIT's efforts to use content filtering technology for corporate email communications. In response to these requests, the OIG contracted with KPMG LLP (KPMG) to audit these areas.

KPMG found that the control improvements described in the DIT memorandum were adequate, fully implemented, and generally operating as intended. Although KPMG's work identified the need for additional control improvements to fully address the five email security issues contained in the DIT memorandum, DIT took prompt action to implement these additional control improvements prior to the close of the audit.

DIT had also completed a pilot implementation of email content filtering technology. However, DIT temporarily discontinued the use of the email content filtering prior to the start of the audit. Based on concerns that KPMG raised during the audit, DIT developed a formal policy and configuration management plan to govern email content filtering at the FDIC.

KPMG recommended that the Director, DIT, implement content filtering technology on corporate email to mitigate the risk of loss of sensitive business data consistent with National Institute of Standards and Technology-recommended practices and the FDIC's policies and procedures. Management concurred with our recommendation and plans to take responsive actions, subject to the concurrence of the FDIC Chairman.

Evaluation of the FDIC's Security Controls over Mail Handling and Mail Screening Processes at FDIC Facilities

The FDIC receives mail from a variety of sources in the Washington, D.C. area at two locations; regional and area offices in Atlanta, Boston, Chicago, Dallas, Kansas City, Memphis, New York, and San Francisco; and at 76 field offices.

In October 2008, the FDIC's Virginia Square facility received a threatening letter containing a white, powdery substance. In subsequent days, the FDIC received similar threatening letters at its Dallas and Washington, D.C. facilities. While the white powder was determined to be harmless, three of the six threatening letters, addressed to FDIC executives, were not detected by the FDIC's mail screening procedures prior to delivery.

Following these incidents, FDIC management requested that the FDIC OIG evaluate the FDIC's mail handling and screening procedures. We contracted with KPMG to perform the evaluation. KPMG evaluated the mail handling and screening operations at the FDIC's Washington, D.C. headquarters buildings and the Atlanta, Dallas, Kansas City, and San Francisco Regional Offices during November and December 2008.

KPMG found that the FDIC has established mail handling and screening centers, procedures, and measures that are generally consistent with published federal guidelines. Further, KPMG's examination of the FDIC's mail screening and handling practices identified several strengths. Such strengths included:

- use of a remote screening

facility opposite the FDIC's Virginia Square facility,

- disciplined implementation of established mail handling security controls at certain regional offices that were closely aligned with recommended security controls,
- nationwide contracts for screening and processing mail to enhance management's ability to control quality and manage change across the organization,
- utilization of a package

tracking and delivery management system at two of six facilities visited,

- routine and frequent training sessions for mail security staff, and
- mail processing personnel as well as their supervisors and managers displayed a positive work attitude and an earnest desire to do good work.

Further, both before and after the October 2008 incidents, the FDIC took action to improve safe mailing practices.

Guilty Plea in White Powder Mailing Case

On March 16, 2009, in the U.S. District Court for the Northern District of Texas, Amarillo Division, an individual entered a guilty plea to 2 counts of a 65-count indictment that charged him with Making Threats and False Information, and Threats and Hoaxes.

On or about October 18, 2008, the defendant mailed 65 threatening letters, of which 64 contained harmless white powder, to various branches of J.P. Morgan Chase, the Office of Thrift Supervision, and to the FDIC. The last envelope contained the threatening letter, but no powder. All of the letters were postmarked from Amarillo, Texas.

The OIG Electronic Crimes Unit (ECU) coordinated with other FDIC divisions and collected evidence relating to the case. Specifically, the ECU worked with DIT to collect a summary of Internet traffic to the fdic.gov Web site for the period of September 24, 2008 to October 19, 2008. The summary consisted of Internet Protocol (IP) addresses for individuals connecting to the Web site. Additionally, the ECU contacted various FDIC divisions, such as DSC, DRR, Office of the Ombudsman, the Chairman's Office, and the OIG Hotline to collect any complaints relating to the FDIC's appointment as receiver of a certain closed Office of Thrift Supervision-regulated institution. The ECU collected all complaint information in email, letter, or telephone call form and passed it along to the case agents. Later, when the FBI developed a specific IP address of interest, the ECU coordinated with DIT to determine whether the IP address had accessed fdic.gov on a specific date. DIT found the IP address on the date in question. The information was included in the search warrant application and the complaint against the subject.

Source: FDIC Division of Administration. Responsible Agencies: FBI and FDIC OIG. Prosecuted by the U.S. Attorney's Office for the Northern District of Texas, Amarillo Division

KPMG did find, however, opportunities for improvement that would better protect the health and safety of FDIC employees and the continuity of its business operations and made eight recommendations to that effect. FDIC management concurred or partially concurred with each recommendation and proposed corrective actions that were responsive to the recommendations.

The FDIC's Guard Services Contract and Controls Over Access to Facilities

Physical security of FDIC facilities is important to achieving the Corporation's mission. Recent turmoil in the financial services industry and the FDIC's increasing role in resolving the banking crises heighten the need to ensure that FDIC employees and facilities are adequately protected. The FDIC relies on private sector guard services at headquarters and regional office locations to protect FDIC employees, property, and the general public. In January 2006, the FDIC consolidated security guard services into a single contract. In November 2007, the FDIC awarded a 7-year, \$74.6 million guard services contract to provide nationwide physical security services. During the reporting period, we performed an evaluation to assess the extent to which the Corporation has administered guard services in a manner that balances security needs and efficiency and implemented adequate controls over access to FDIC facilities.

We reported that the FDIC is administering its nationwide security guard services contract

consistent with contract cost and performance expectations and is meeting the contract's objective of protecting FDIC employees and FDIC property. Based on our observations, the contract security guards were generally attentive and acted in a professional and courteous manner. We also concluded that the FDIC had negotiated contract labor rates for guard services that were lower than most offered under the General Services Administration schedule.

Further, in 2007, the FDIC procured an independent physical security assessment of its headquarters facilities. The resulting Security Assessment Report concluded that the FDIC had implemented a well-planned security program. The assessment also made a number of recommendations related to physical security procedures and staffing. We determined that the FDIC had addressed or was studying several of those recommendations.

We identified several areas where the FDIC could further strengthen security or could reduce guard services cost without sacrificing security and made five recommendations for management's consideration. Management concurred or partially concurred with 4 of the 5 recommendations and offered an acceptable explanation for not concurring with the one remaining recommendation. We are including a range of \$2.1 million to \$5.2 million as funds put to better use in this Semiannual Report to the Congress associated with one recommendation to improve the efficiency of guard services. However, management indicated that it may not fully

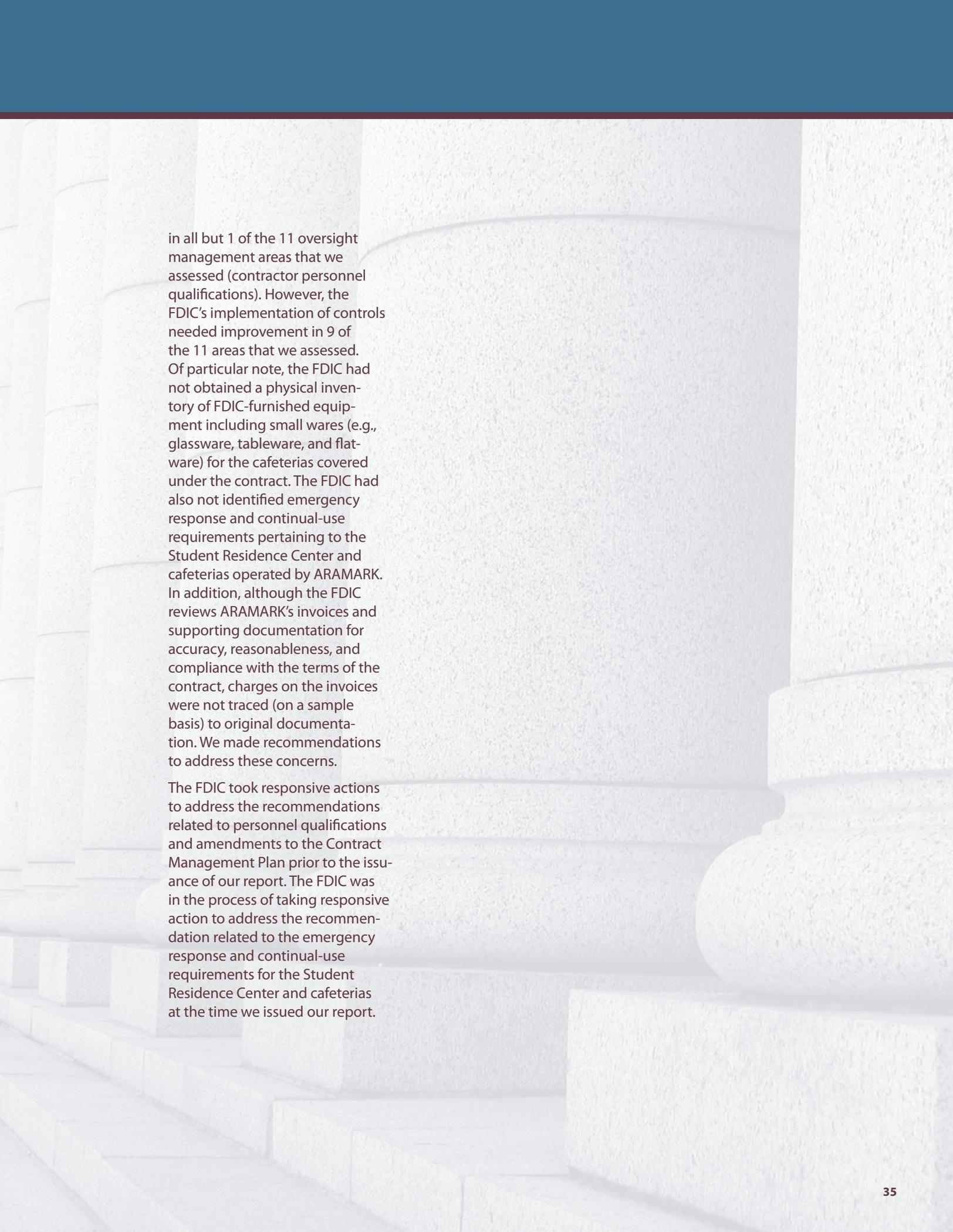
achieve these potential savings because of the costs involved in mitigating any increased risk that results from implementing the recommendation.

Oversight Management of the Contract with the ARAMARK Corporation

In February 2007, the FDIC's Division of Administration awarded a contract to the ARAMARK Corporation (ARAMARK) to manage and operate the Corporation's Student Residence Center in Arlington, Virginia, and cafeterias in the Virginia Square facility and headquarters building in Arlington and Washington, D.C., respectively. The contract, which has a ceiling price of approximately \$51 million and a term of 10 years (including option periods), is one of the FDIC's highest-dollar contracts.

We completed an audit to assess key oversight management controls pertaining to the FDIC's contract with ARAMARK and focused on assessing 11 key controls designed to ensure that ARAMARK complies with the terms and conditions of its contract with the FDIC. The 11 controls pertain to contractor personnel qualifications, contractor insurance coverage, FDIC-furnished equipment, internal contractor audits, invoice review and approval, accounting for contractor cash receipts, emergency preparedness, evaluating contractor performance, quality assurance, monitoring and inspection of contractor performance, and contract management planning.

We found that the FDIC has established controls to help ensure proper oversight management of its contract with ARAMARK



in all but 1 of the 11 oversight management areas that we assessed (contractor personnel qualifications). However, the FDIC's implementation of controls needed improvement in 9 of the 11 areas that we assessed. Of particular note, the FDIC had not obtained a physical inventory of FDIC-furnished equipment including small wares (e.g., glassware, tableware, and flatware) for the cafeterias covered under the contract. The FDIC had also not identified emergency response and continual-use requirements pertaining to the Student Residence Center and cafeterias operated by ARAMARK. In addition, although the FDIC reviews ARAMARK's invoices and supporting documentation for accuracy, reasonableness, and compliance with the terms of the contract, charges on the invoices were not traced (on a sample basis) to original documentation. We made recommendations to address these concerns.

The FDIC took responsive actions to address the recommendations related to personnel qualifications and amendments to the Contract Management Plan prior to the issuance of our report. The FDIC was in the process of taking responsive action to address the recommendation related to the emergency response and continual-use requirements for the Student Residence Center and cafeterias at the time we issued our report.

6

STRATEGIC GOAL 6: **OIG Internal Processes: Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships**

While the OIG's audit, evaluation, and investigation work is focused principally on the FDIC's programs and operations, we have an obligation to hold ourselves to the highest standards of performance and conduct. We seek to develop and retain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships with all stakeholders.

To ensure a high-quality staff, we must continuously invest in keeping staff knowledge and skills at a level equal to the work that needs to be done, and we emphasize and support training and development opportunities for all OIG staff. We also strive to keep communication channels open throughout the office. We are mindful of ensuring effective and efficient use of human, financial, IT, and procurement resources in conducting OIG audits, evaluations, investigations, and other support activities, and have a disciplined budget process to see to that end.

To carry out our responsibilities, the OIG must be professional, independent, objective, fact-based, nonpartisan, fair, and balanced in all its work. Also, the IG and OIG staff must be free both in fact and in appearance from personal, external, and organiza-

tional impairments to their independence. The OIG adheres to the *Quality Standards for Federal Offices of Inspector General*, issued by the former President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), combined in a single Council of the Inspectors General on Integrity and Efficiency (CIGIE) with passage of the IG Reform Act on October 14, 2008. Further, the OIG conducts its audit work in accordance with generally accepted Government Auditing Standards; its evaluations in accordance with PCIE Quality Standards for Inspections; and its investigations, which often involve allegations of serious wrongdoing that may involve potential violations of criminal law, in accordance with Quality Standards for Investigations established by the PCIE and ECIE, and procedures established by the Department of Justice.

Strong working relationships are fundamental to our success. We place a high priority on maintaining positive working relationships with the FDIC Chairman, Vice Chairman, other FDIC Board members, and management officials. The OIG is a regular participant at Audit Committee meetings where recently issued audit and evaluation reports are discussed. Other meetings

occur throughout the year as OIG officials meet with division and office leaders and attend and participate in internal FDIC conferences and other forums.

The OIG also places a high priority on maintaining positive relationships with the Congress and providing timely, complete, and high-quality responses to congressional inquiries. In most instances, this communication would include semiannual reports to the Congress, issued audit and evaluation reports, information related to completed investigations, comments on legislation and regulations, written statements for congressional hearings, contacts with congressional staff, responses to congressional correspondence, and materials related to OIG appropriations.

We have fully supported and participated in CIGIE activities and coordinate closely with representatives from the other financial regulatory OIGs. Additionally, the OIG meets with representatives of the U.S. Government Accountability Office to coordinate work and minimize duplication of effort and with representatives of the Department of Justice, including the FBI and U.S. Attorneys' Offices, to coordinate our criminal investigative work and pursue matters of mutual interest.

The FDIC OIG has its own strategic and annual planning processes, independent of the Corporation's planning process, in keeping with the independent nature of the OIG's core mission. The Government Performance and Results Act of 1993 (GPRA) was enacted to improve the management, effectiveness, and accountability of federal programs. GPRA requires most federal agencies, including the FDIC, to develop a strategic plan that broadly defines the agency's 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 OIG strongly supports GPRA and is fully committed to applying its principles of strategic planning and performance measurement and reporting to our operations. The OIG's Business Plan lays the basic foundation for establishing goals, measuring performance, and reporting accomplishments, consistent with the principles and concepts of GPRA. We are continuously seeking to better integrate risk management considerations in all aspects of OIG planning—both with respect to external and internal work.

To build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships, the **OIG's 2009 performance goals** are as follows:

- Effectively and efficiently manage OIG human, financial, IT, and physical resources
- Ensure quality and efficiency of OIG audits, evaluations, investigations, and other projects and operations
- Encourage individual growth and strengthen human capital management and leadership through professional development and training
- Foster good client, stakeholder, and staff relationships
- Enhance OIG risk management activities

A brief listing of selected OIG activities in support of these performance goals follows.

| Effectively and Efficiently Manage OIG Human, Financial, IT, and Physical Resources | |
|---|---|
| 1 | Continued realignment of the OIG's investigative resources with FDIC regions, by reassigning OI staff, and advertising and filling vacancies. |
| 2 | Prepared informational materials outlining needed financial resources for presentation to the FDIC Chairman, Office of Management and Budget (OMB), and the House and Senate Appropriations Subcommittees in support of the OIG's FY 2010 budget request. |
| 3 | Completed an office-wide initiative focusing on protecting personally identifiable information and other sensitive data through the use of encryption of portable media devices and use of Entrust when sending sensitive email. |
| 4 | Continued to partner with DIT to ensure the security of OIG information in the FDIC computer network infrastructure. |

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations

| | |
|----------|---|
| 1 | Completed first annual quality monitoring review in Office of Audits, a new requirement under Generally Accepted Government Auditing Standards, to summarize and analyze quality assurance activities completed in calendar year 2008. |
| 2 | Conducted a quality assessment review addressing data reliability for calculating OIG audit costs in STAR, the OIG's audit and evaluation tracking system. |
| 3 | Continued to use a contract awarded to a qualified firm to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise as we conduct audits and evaluations, and closely monitored contractor performance. |
| 4 | Continued use of the OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audit and evaluation assignments, and use of the IG's feedback form to assess time, cost, and value of audits and evaluations. |
| 5 | Planned for the conduct of a peer review of the audit operations of the Department of Commerce OIG Office of Audit, as required by the CIGIE. Also spearheaded the IG community's peer review training program for OIGs government-wide. |
| 6 | Reported the results of the FDIC OIG peer review of the investigative operations of the Environmental Protection Agency OIG, as required by the former PCIE. |

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training

| | |
|----------|---|
| 1 | Conducted a comprehensive Material Loss Review training program for FDIC OIG staff and staff from other financial regulatory OIGs to better equip participants with skills and expertise needed to meet demands of our collective increased material loss review workload. |
| 2 | Continued to support members of the OIG attending long-term graduate banking school programs sponsored by Stonier, the Southeastern School of Banking at Vanderbilt University, and the University of Wisconsin to enhance OIG staff expertise and knowledge of the banking industry. |
| 3 | Employed college interns in the OIG to provide assistance to the Offices of Audits, Evaluations, and Investigations. |

Foster Good Client, Stakeholder, and Staff Relationships

| | |
|----------|---|
| 1 | Maintained congressional working relationships by providing our Semiannual Report to the Congress for the 6 month period ending September 30, 2008; notifying interested congressional parties regarding the OIG's completed audit and evaluation work; attending or monitoring FDIC-related hearings on issues of concern to various oversight committees; and coordinating with the Corporation's Office of Legislative Affairs on issues of mutual interest. |
| 2 | Communicated with the FDIC Chairman, Vice Chairman, Director Curry, and other senior FDIC officials through the Inspector General's regularly scheduled meetings with them and through other forums. |
| 3 | Participated in DSC regional meetings to provide general information regarding the OIG and OI case studies on bank frauds that are of importance to DSC and the banking industry. |
| 4 | Held quarterly meetings with FDIC Directors and other senior officials to keep them apprised of ongoing audit and evaluation reviews and results. |
| 5 | Kept DSC, DRR, the Legal Division, and other FDIC program offices informed of the status and results of our investigative work impacting their respective offices. This was accomplished by notifying FDIC program offices of recent actions in OIG cases and providing OI's quarterly reports to DSC, DRR, the Legal Division, and the Chairman's Office outlining activity and results in our cases involving closed and open banks, concealed assets, and restitution. |
| 6 | Participated at FDIC Audit Committee meetings to present the results of significant completed audits and evaluations for consideration by Committee members. |
| 7 | Reviewed 10 draft corporate policies on a range of topics, among those: FDIC Enterprise Data Management System; Access Control for Division of Information Technology Resources; Corporate Outreach Program; Use of Personal Digital Assistants; and Cell Phone and Cell Modem Assignments, Usage, Safeguards and Asset Management. |
| 8 | Supported the Inspector General community by having the IG serve as Chair of the CIGIE Audit Committee and coordinating the activities of that group; attending monthly CIGIE meetings and participating in Inspection & Evaluation Committee and Council of Counsels to the IGs meetings; providing audit, investigative, and counsel resource assistance to other OIGs; spearheading writing and publication of the IG community's annual report for 2008; and providing support to the Inspector General community's investigative meetings and training activities. |
| 9 | Met regularly with representatives of the OIGs of the federal banking regulators (Board of Governors of the Federal Reserve System, Department of the Treasury, National Credit Union Administration, Securities and Exchange Commission, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, and Export-Import Bank) to discuss audit, evaluation, and investigative matters of mutual interest and leverage knowledge and resources. |

Enhance OIG Risk Management Activities

| | |
|----------|--|
| 1 | Held meetings to assess emerging issues and risk areas impacting the FDIC and the banking and financial services industry as a whole. Determined those assignments to include in our FY 2009 Business Plan. |
| 2 | Participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly. |
| 3 | Provided OIG perspectives on risk of fraud at the FDIC to GAO. We did so in response to GAO's responsibility under Statement of Auditing Standards No. 99, Consideration of Fraud in Financial Statement Audits. |
| 4 | Provided the FDIC Chairman our 2008 assurance letter, under which the OIG provides assurance that the OIG has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, OMB A-123, and other key legislation. |
| 5 | Provided the OIG's assessment of the management and performance challenges facing the FDIC, in accordance with the Reports Consolidation Act of 2000. We identified the following broad areas of challenges: Restoring and Maintaining Public Confidence and Stability in the Financial System; Resolving Failed Institutions; Ensuring the Viability of the Deposit Insurance Fund; Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program; Protecting and Educating Consumers and Ensuring an Effective Compliance Program; Effectively Managing the FDIC Workforce and Other Corporate Resources. Management included a detailed write-up of the challenges in its performance and accountability report. |

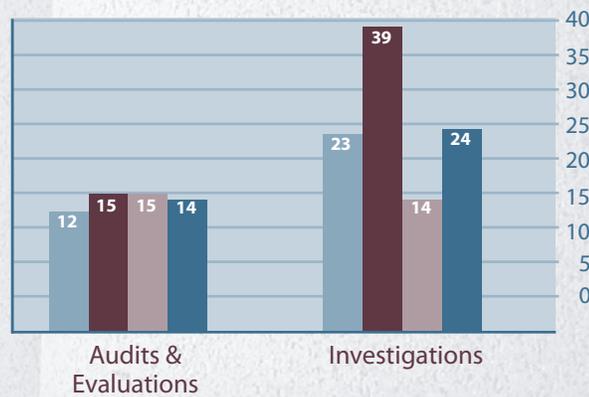
Cumulative Results (2-year period)

| Nonmonetary Recommendations | |
|-----------------------------|----|
| April 2007 - September 2007 | 7 |
| October 2007 - March 2008 | 52 |
| April 2008 - September 2008 | 24 |
| October 2008 - March 2009 | 28 |

Products Issued and Investigations Closed

LEGEND

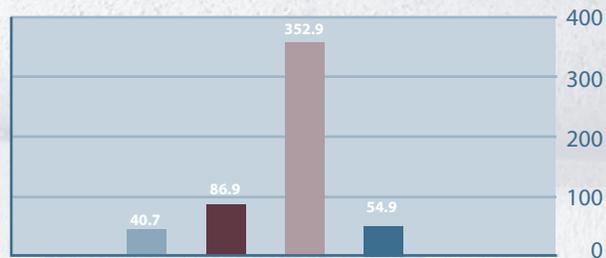
- 4/07 - 9/07
- 10/07 - 3/08
- 4/08 - 9/08
- 10/08 - 3/09



Fines, Restitution, and Monetary Recoveries Resulting from OIG Investigations (in millions)

LEGEND

- 4/07 - 9/07
- 10/07 - 3/08
- 4/08 - 9/08
- 10/08 - 3/09



REPORTING REQUIREMENTS

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* Evaluation report statistics are shown on pages 47 and 48, in accordance with the IG Reform Act of 2008.

INFORMATION REQUIRED BY THE INSPECTOR GENERAL ACT OF 1978, AS AMENDED

Review of Legislation and Regulations

It is the responsibility of the OIG Office of Counsel to review, pursuant to Section 4(a) of the Inspector General Act, pending and enacted legislation and regulations relating to programs and operations of the FDIC. In this regard, Counsel's Office has continued to monitor the status of various bills relating to the tumultuous landscape of the financial industry as well as legislation pertaining to the Inspector General community at large. Counsel reviewed H.R. 1349, the Federal Accounting Standards Board Act of 2009; H.R. 1264, the Multiple Peril Insurance Act of 2009; H.R. 478, the Federal Agency Performance Review and Efficiency Act; H.R. 885, the Improved Financial and Commodity Markets Oversight and Accountability Act; H.R. 216, the Government Credit Card Abuse Act; H.R. 113, which would require the IGs of government corporations to audit earmarked funds; and S. 2321, the E-Government Reauthorization Act. Counsel's Office also reviewed and prepared an analysis on House Rule XI, which proposed amendments regarding committee review of OIG and GAO reports; provided substantive comments on the Omnibus Appropriations Act of 2009; drafted statutory language for S.383, requiring coordination between the FDIC OIG and the Special Inspector General for the Troubled Asset Relief Program; and worked jointly with other federal banking Inspectors General to propose legislation that would raise the statutory threshold on conducting material loss reviews under Section 38(k) of the FDI Act. Counsel's Office has continued to provide legal advice to Material Loss Review teams and criminal investigative teams on issues related to failed financial institutions.

Table I: 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 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 (1) information supplied by the FDIC's Office of Enterprise Risk Management (OERM) and (2) the OIG's determination of closed recommendations for reports issued after March 31, 2002. These 4 recommendations from 4 reports involve improvements in operations and programs. OERM has categorized the status of these recommendations as follows:

Management Action in Process: (4 recommendations from 4 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.

Table I: Significant Recommendations From Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

| Report Number, Title & Date | Significant Recommendation Number | Brief Summary of Planned Corrective Actions and Associated Monetary Amounts |
|---|-----------------------------------|---|
| Management Action In Process | | |
| 06-025 Controls for Monitoring Access to Sensitive Information Processed by FDIC Applications September 29, 2006 | 3♦ | Develop a written plan that defines a risk-based, enterprise-wide approach to audit logging and monitoring for the FDIC's portfolio of information systems. |
| AUD-08-003 FDIC's Implementation of the USA PATRIOT Act November 30, 2007 | 1■ | Clarify guidance to examiners on the identification and reporting of apparent customer identification program (CIP) violations, including the consideration of supplemental procedures and forms and whether transaction testing is a necessary basis for citing apparent CIP deficiencies. |
| AUD-08-014 FDIC's Controls Over the CAMELS Rating Review Process August 12, 2008 | 1● | Revise the Case Manager Procedures Manual to require that changes made to examiner-in-charge proposed CAMELS ratings in the draft Report of Examination be centrally managed by DSC, including tracking, monitoring, and maintaining the documented justification and approval for changes. |
| AUD-08-019 Reliability of Supervisory Information Accessed Through the Virtual Supervisory Information on the Net (ViSION) System September 25, 2008 | 1 | Conduct an assessment of supervisory information accessed through the ViSION system in order to define an acceptable accuracy rate and define controls and responsibilities over the reliability of supervisory information consistent with the results of the assessment. |

♦ The OIG has received some information but has requested additional information to evaluate management's actions in response to the recommendation.

■ The OIG is reviewing management's actions in response to the recommendation.

● Implementation scheduled for June 2009.

Table II: Audit Reports Issued by Subject Area

| Audit Report | | Questioned Costs | | Funds Put to Better Use |
|---------------------------------|---|------------------|-------------|-------------------------|
| Number and Date | Title | Total | Unsupported | |
| Supervision | | | | |
| AUD-09-002 February 6, 2009 | Examination Coverage of Underwriting Practices for Consumer Loans Not Secured by Real Estate | | | |
| AUD-09-003 February 18, 2009 | Material Loss Review of First Priority Bank, Bradenton, Florida | | | |
| AUD-09-005 March 11, 2009 | Material Loss Review of The Columbian Bank and Trust Company, Topeka, Kansas | | | |
| AUD-09-006 March 17, 2009 | Material Loss Review of Integrity Bank, Alpharetta, Georgia | | | |
| AUD-09-008 March 30, 2009 | Material Loss Review of Silver State Bank, Henderson, Nevada | | | |
| Insurance | | | | |
| AUD-09-004 February 19, 2009 | FDIC's Controls Related to the Offsite Review List | | | |
| Resources Management | | | | |
| AUD-09-001 December 17, 2008 | Verification of the FDIC's Data Submissions through the Governmentwide Financial Report System as of September 30, 2008 | | | |
| AUD-09-007 March 26, 2009 | Control Improvements Undertaken by the Division of Information Technology to Ensure the Confidentiality of Sensitive Email Communications | | | |
| AUD-09-009 March 31, 2009 | Oversight Management of the Contract with the ARAMARK Corporation | | | |
| Totals for the Period | | \$0 | \$0 | \$0 |

Table III: Evaluation Reports and Memoranda Issued

| Evaluation Reports & Memoranda | | Questioned Costs | | Funds Put to Better Use |
|---------------------------------|--|------------------|-------------|--------------------------|
| Number and Date | Title | Total | Unsupported | |
| Supervision | | | | |
| EVAL-09-004 March 20, 2009 | Controls Over the FDIC's Processing of Capital Purchase Program Applications from FDIC-Supervised Institutions | | | |
| Consumer Protection | | | | |
| EM-09-001 December 12, 2008 | Enforcement Actions for Compliance Violations at FDIC-Supervised Institutions | | | |
| Resources Management | | | | |
| EVAL-09-001 January 9, 2009 | FDIC's Corporate Employee Program | | | |
| EVAL-09-002 February 6, 2009 | FDIC's Guard Services Contract and Controls Over Access to Facilities | | | \$2,094,750 ^a |
| EVAL-09-003 March 11, 2009 | FDIC's Security Controls Over Mail Handling and Mail Screening Processes at FDIC Facilities | | | |
| Totals for the Period | | \$0 | \$0 | \$2,094,750 |

^a Funds Put to Better Use are part of a range, from \$2,094,750 to \$5,236,872.

Table IV: Audit Reports Issued with Questioned Costs

| | Number | Questioned Costs | |
|--|----------|------------------|-------------|
| | | Total | Unsupported |
| A. For which no management decision has been made by the commencement of the reporting period. | 0 | 0 | 0 |
| B. Which were issued during the reporting period. | 0 | 0 | 0 |
| Subtotals of A & B | 0 | 0 | 0 |
| C. For which a management decision was made during the reporting period. | 0 | 0 | 0 |
| (i) dollar value of disallowed costs. | 0 | 0 | 0 |
| (ii) dollar value of costs not disallowed. | 0 | 0 | 0 |
| 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 |

Table V: Evaluation Reports and Memoranda Issued with Questioned Costs

| | Number | Questioned Costs | |
|--|----------|------------------|-------------|
| | | Total | Unsupported |
| A. For which no management decision has been made by the commencement of the reporting period. | 0 | 0 | 0 |
| B. Which were issued during the reporting period. | 0 | 0 | 0 |
| Subtotals of A & B | 0 | 0 | 0 |
| C. For which a management decision was made during the reporting period. | 0 | 0 | 0 |
| (i) dollar value of disallowed costs. | 0 | 0 | 0 |
| (ii) dollar value of costs not disallowed. | 0 | 0 | 0 |
| 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 |

Table VI: Audit Reports Issued with Recommendations for Better Use of Funds

| | Number | 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. | 0 | 0 |
| Subtotals of A & B | 0 | 0 |
| C. For which a management decision was made during the reporting period. | 0 | 0 |
| (i) dollar value of recommendations that were agreed to by management. | 0 | 0 |
| - based on proposed management action. | 0 | 0 |
| - 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 VII: Evaluation Reports and Memoranda Issued with Recommendations for Better Use of Funds

| | Number | 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 | \$2,094,750 |
| Subtotals of A & B | 1 | \$2,094,750 |
| C. For which a management decision was made during the reporting period. | 0 | 0 |
| (i) dollar value of recommendations that were agreed to by management. | 0 | 0 |
| - based on proposed management action. | 0 | 0 |
| - 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 VIII: Status of OIG Recommendations Without Management Decisions

During this reporting period, there were no recommendations more than 6 months old without management decisions.

Table IX: Significant Revised Management Decisions

During this reporting period, there were no significant revised management decisions.

Table X: Significant Management Decisions with Which the OIG Disagreed

During this reporting period, there were no significant management decisions with which the OIG disagreed.

Table XI: Instances Where Information Was Refused

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

Congratulations and Farewell to Retirees

The OIG acknowledges the following former staff who retired after distinguished federal careers:

Alban Abraham, Office of Evaluations



Mr. Abraham retired after more than 38 years of federal service. His career began in 1970 at the Army Audit Agency. In

1979, he joined the OIG for the General Services Administration, where he was responsible for conducting and managing special audits and audits of building management. His career shifted its focus to the banking industry in 1988 when he joined the Federal Home Loan Bank Board, which was merged with the FDIC in 1989, and he was a valued member of the FDIC OIG up to his retirement. At the FDIC, in particular, he played a key role in conducting and managing audits of FDIC contractors and others providing services to the Corporation, including numerous law firms.

Karl Berberich, Office of Investigations



Mr. Berberich retired after more than 34 years of federal service. His career began in 1974 when he worked

at the Department of Housing and Urban Development (HUD) as an accountant. By 1978 he had transferred to the General Services Administration where he worked as an accountant in the Indian Trust Accounting Unit. He then joined the Department of Health and Human Services in 1980 and served as an accountant and supervisory accountant until February 1988. He subsequently joined the FDIC as a criminal investigator and was with the OIG's Office of Investigations for nearly 20 years. During his last 8 years with the OIG, he provided valuable advice and support as the Senior Technical Advisor to the Assistant Inspector General for Investigations.

Patricia Black, Deputy Inspector General



Ms. Black retired after more than 34 years of federal service. She entered the government in 1970 as a co-op

student at the Department of Health, Education, and Welfare. Her career included service as a law clerk at GSA and later an attorney with GSA's Board of Contract Appeals. She also served for 11 years with the HUD Office of General Counsel. She was Counsel to the Inspector General of the Resolution Trust Corporation (RTC) throughout its existence. With the

merger of the RTC and FDIC Offices of Inspector General, Ms. Black was the Assistant IG for Inspections and Legal Support. She then served as Counsel to the FDIC IG and as Deputy IG under former IG Gaston Gianni for several years. Following the retirement of Mr. Gianni in December 2005, Ms. Black was the FDIC Acting IG for a 6-month period. When IG Rymer took office in July 2006, she resumed her role as Deputy Inspector General up to her retirement.

Joan Dwyer, Office of Investigations



Ms. Dwyer retired after nearly 28 years of federal government service. Her career included service at the Federal Bureau

of Investigation; the Bureau of Alcohol, Tobacco, and Firearms; the Department of Defense; RTC; and the FDIC. At the FDIC, in particular, Ms. Dwyer was a primary contact between the headquarters and field offices and provided advice and technical assistance to agents based on her extensive law enforcement experience and expertise. During her last 9 months at the FDIC, she served with distinction in piloting an Ombudsman program for FDIC employees, an activity that was a top priority for the FDIC Chairman.

Nancy Frank, Office of Management



Ms. Frank retired after nearly 37 years of federal service. Her career began in 1969 and the early 1970's when she worked

at the Federal Trade Commission in clerical positions on an intermittent basis while attending college. Beginning in 1975, she served as a budget analyst at the Commission, advancing steadily in her career over the years. By 1979 she had transferred to the U.S. Secret Service and served as a budget analyst for nearly 11 years. In 1990, she joined the RTC Office of Finance and soon thereafter joined the RTC OIG and held the position of Financial/Budget Analyst until the RTC's sunset in December 1995. She then transitioned to the FDIC OIG where she served our office with distinction for nearly 13 years. She worked tirelessly to ensure that the OIG's budget and financial systems worked efficiently and effectively. She was also an excellent steward of OIG funds and ensured financial accountability and integrity.

Ben Hsiao, Office of Audits



Mr. Hsiao retired after nearly 32 years of federal government service. His distinguished career included civilian service as

an Operations Research Analyst in both the Navy and the Air Force and service at the OIGs of the Department of Energy, the Environmental Protection Agency, HUD, and finally, the FDIC. At the FDIC, in particular, Mr. Hsiao played a key role in helping to ensure the security of the Corporation's information systems. He was also actively involved, including serving as president, in the National Capital Area Chapter of the Information Systems Audit Control Association, an organization for information governance, control, security, and audit professionals.

Craig Russell, Office of Audits



Mr. Russell retired after nearly 42 years of combined military and federal government service. His career included

military service to his country in the U.S. Army as well as a civilian career at the U.S. General Accounting Office, RTC, and the FDIC. For many years, Mr. Russell served the important role of Site Coordinator in the OIG's Dallas Office. Throughout his career he developed other audit staff who grew professionally under his guidance. More recently, Mr. Russell was involved in OIG work related to the failure of IndyMac Bank, FSB, and invested tremendous time and energy on that assignment prior to his retirement.



The Office of Inspector General (OIG) Hotline is a convenient mechanism employees, contractors, and others can use to report instances of suspected fraud, waste, abuse, and mismanagement within

the FDIC and its contractor operations. The OIG maintains a toll-free, nationwide Hotline (1-800-964-FDIC), electronic mail address (IGHotline@FDIC.gov), and postal mailing address. The Hotline is designed to make it easy for employees and contractors to join with the OIG in its efforts to prevent fraud, waste, abuse, and mismanagement that could threaten the success of FDIC programs or operations.

To learn more about the FDIC OIG and for complete copies of audit and evaluation reports discussed in this Semiannual Report, visit our Web site: <http://www.fdicig.gov>

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