



OFFICE OF
INSPECTOR
GENERAL

SEMIANNUAL
REPORT
TO THE
CONGRESS

October 1, 2007 – March 31, 2008



FEDERAL DEPOSIT INSURANCE CORPORATION



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 4,500 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 \$4.29 trillion in deposits for 8,544 institutions, of which the FDIC supervised 5,192. The Corporation held insurance funds of \$52.4 billion to ensure depositors are safeguarded.

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INSPECTOR GENERAL'S STATEMENT

I am pleased to present the accomplishments of the Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) for the 6-month period ending March 31, 2008. During that time frame, my office has continued to conduct its audits, evaluations, investigations and other activities in full support of the FDIC's successful accomplishment of its mission. This comes at a time when the Corporation and its fellow regulators are facing many challenges associated with risks from economic conditions, fallout from recent unsustainable mortgage lending practices, and disruptions in the credit and capital markets.

Our investigations, in particular, have yielded very positive results over the past 6 months—resulting in nearly \$87 million in potential fines, restitution, and monetary recoveries—more than double the amount from our last reporting period. Of note, and as discussed in previous semiannual reports, during this reporting period we concluded a 6-year investigation related to the 2002 failure of Oakwood Deposit Bank Company, Oakwood, Ohio. Our investigation has involved many defendants over the years, and most recently, two individuals involved in the embezzlement of funds that led to Oakwood's failure were sentenced to substantial prison terms and ordered to pay \$41 million in restitution to the FDIC and \$500,000 to the Internal Revenue Service. This semiannual report also presents the outcomes of a number of other successful investigations involving a growing number of mortgage fraud schemes, bank fraud, money laundering, obstruction of examinations, securities fraud, and misrepresentation of FDIC insurance or affiliation. Many of those involved in perpetrating such crimes have received stiff sentences and corresponding fines, and we are especially appreciative of the efforts of FDIC staff and our partners in the law enforcement community for helping us bring these individuals to justice. We continue expanding the OIG's investigative presence by aligning our investigative resources with the FDIC regions to ensure ongoing investigative success.

Our audit and evaluation work produced 15 reports and 52 nonmonetary recommendations, with several assignments addressing issues of importance to the Corporation as it works to ensure a strong examination and supervision process in a volatile and ever-changing financial services environment. Such work included an audit of the FDIC's consideration of commercial real estate concentration



risk in FDIC-supervised institutions and another audit of the FDIC's implementation of supervisory guidance for non-traditional mortgage products. To keep current with industry trends, in November 2007, we also joined our colleagues from the Department of the Treasury, Federal Reserve Board, and National Credit Union Administration OIGs in hosting an Emerging Issues Symposium, the theme of which was: *Consumer, Credit, and Capital Issues in a Changing Economy*. In that connection, we have maintained ongoing communications and information-sharing with our fellow financial regulatory agency OIGs to leverage our resources and knowledge so that we are well prepared for any upswings in bank failures that might necessitate the conduct of statutorily-mandated material loss reviews to determine the causes of institution failures that result in substantial losses to the Deposit Insurance Fund. Our evaluations group will continue to be responsive to FDIC management-requested work on topics of significance to the Corporation in the coming months.

As the FDIC prepares to celebrate its 75th anniversary, it operates in an uncertain environment somewhat reminiscent of circumstances surrounding its creation in 1933. We remain committed to our cooperative working relationships with the Chairman, Vice Chairman, and other FDIC management officials; our OIG colleagues; and members of the Congress and their staffs as we look to the future and work to help the FDIC ensure the longstanding tradition of stability and public confidence in the nation's banking system.

Jon T. Rymer
Inspector General
April 30, 2008

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ABBREVIATIONS AND ACRONYMS

| | |
|--------|--|
| BSA | Bank Secrecy Act |
| CAS | Claims Administration System |
| COSO | Committee of Sponsoring Organizations |
| CRE | commercial real estate |
| DCAA | Defense Contract Audit Agency |
| 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 |
| ERM | Enterprise Risk Management |
| FBI | Federal Bureau of Investigation |
| FDIC | Federal Deposit Insurance Corporation |
| FEDSIM | Federal Systems Integrations and Management |
| FFIEC | Federal Financial Institutions Examination Council |
| FNBB | First National Bank of Blanchardville |
| FY | fiscal year |
| GAO | U.S. Government Accountability Office |
| GPRA | Government Performance and Results Act of 1993 |
| GSA | General Services Administration |
| IFCH | Interfinancial Holdings |
| IRS | Internal Revenue Service |
| ISC | Infrastructure Services Contract |
| IT | Information Technology |
| MDPS | Multi-regional Data Processing Services |
| NTM | nontraditional mortgage |
| OERM | Office of Enterprise Risk Management |
| OFAC | Office of Foreign Assets Control |
| OI | Office of Investigations |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| OTS | Office of Thrift Supervision |
| PCIE | President's Council on Integrity and Efficiency |
| RTC | Resolution Trust Corporation |
| SAER | Summary Analysis of Examination Report |
| SRA | Systems Research Applications International, Inc. |
| TSP | technology service provider |



HIGHLIGHTS AND OUTCOMES

The OIG's 2008 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 our audit of the FDIC's consideration of commercial real-estate concentration risk in FDIC-supervised institutions, making recommendations to clarify guidance and instructions to better ensure that associated risk is considered by institution management and in the examination process. We also issued a report on the implementation of the FDIC's supervisory guidance for nontraditional mortgage products, focusing on the FDIC's response to worsening conditions in the mortgage industry and looking at the relatively small number of FDIC-supervised institutions with significant involvement in such products. Another of our audits reviewed the FDIC's implementation of the USA PATRIOT Act, noting that comprehensive examination procedures are in place to evaluate institution compliance with the anti-money laundering and terrorist financing provisions of the Act. We made two recommendations to improve the Corporation's overall approach for PATRIOT Act compliance.

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. Particularly noteworthy results include the stiff sentencing of multiple subjects for mortgage fraud. To illustrate, a Dallas businessman was sentenced to 262 months of incarceration and ordered to pay restitution of \$2 million. In another case, an Illinois businessman and his associate were sentenced to

235 months and 97 months, respectively, for their role in an \$8 million real estate land flip scheme. Another purported real estate investor was sentenced to 11 years in prison and ordered to pay \$1.4 million to victim banks and mortgage lenders. In another case involving bank fraud, the former president and chief executive officer of Farmers Deposit Bank, Eminence, Kentucky, was sentenced to 36 months of incarceration and ordered to pay restitution of more than \$13 million to the bank. Another of our investigations led to the sentencing of the former president and loan officer of the Bank of Paxton to 60 months of incarceration, and he was similarly ordered to pay restitution of \$4.9 million to the bank. 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, 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 11-20.)

Strategic Goal 2

Insurance: Help the FDIC Maintain the Viability of the Insurance Funds

We conducted audit work related to the FDIC's receipt and assessment of savings association subsidiary notices, at the request of staff from the U.S. Senate Committee on Banking, Housing and Urban Affairs. We reported that the FDIC had developed an adequate control process for reviewing the subsidiary notices that it received from institutions. At the end of the reporting period, ongoing or planned work in this goal area included an audit of the Corporation's off-site monitoring activities for insurance risk and an audit of the FDIC's investment management practices related to the Deposit Insurance Fund, the results of which will be included in an upcoming semiannual report. (See pages 21-22.)

Strategic Goal 3

Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Audits and investigations contributed to the FDIC's protection of consumers in several ways. We completed our audit of examination procedures for assessing controls to protect customer and consumer information at multi-regional data processing servicers. In that report we made recommendations to better ensure examination procedures at technology service providers are commensurate with the risk of unauthorized access

to customer and consumer information and applied consistently across FDIC regions. At the end of the reporting period, we had several assignments ongoing or planned in support of this goal, including an audit of consumer credit underwriting practices in community banks and an evaluation of the FDIC's Consumer Response Center.

From an investigative standpoint, as a result of an ongoing investigation, two securities sales representatives pleaded guilty to a fraud scheme where they misled elderly investors into believing that their funds were invested in FDIC-insured certificates of deposit when, in fact, they were not. The OIG's Electronic Crimes Unit (ECU) was also successful in working to deactivate 10 fraudulent email accounts involving false claims of FDIC insurance or affiliation. The ECU responded to Internet-based schemes where the FDIC and OIG Web sites were misused to entice consumers to divulge personal information and successfully shut down two Web sites used for such purposes. (See pages 23-26.)

Strategic Goal 4

Receivership Management: Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships

At FDIC management's request, we completed an evaluation assignment related to the FDIC's Claims Administration System, a development effort to automate the handling of deposit insurance determination functions and the processing and payment of claims associated with failed financial institutions. We made four suggestions to management as a result. We also continued to monitor the FDIC's Strategic Readiness Project. At the end of the reporting period, the OIG's ongoing or planned work in support of this strategic goal area included an audit of internal control in the FDIC's receivership accounting process and an audit of protection of resolution and receivership data managed or maintained by FDIC contractors.

We continued to pursue concealment of assets investigations related to the more than \$1.7 billion in criminal restitution that the FDIC is owed. In connection with one such investigation, during the reporting period a debtor who had previously claimed he could not pay was ordered to make a restitution payment of more than \$400,000 to the FDIC. (See pages 27-29.)

Strategic Goal 5

Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

The OIG devoted substantial resources to this goal area during the reporting period, resulting in a variety of issues addressed. Of note with respect to this strategic goal, we issued the results of our review of the Corporation's enterprise risk management program, making seven recommendations and two suggestions for enhancements. At the Chairman's request, we also assessed the integrity of the FDIC's information technology (IT) procurement activity and the FDIC's governance framework related to the selection, management, and evaluation of IT projects and made recommendations for enhancements in both areas. We performed a related audit to assess the FDIC's contract oversight management of its \$357 million IT infrastructure services contract and support for payments made by the FDIC under the contract, making recommendations in that report to strengthen governance and promote transparency and communication throughout the infrastructure services contract program.

We issued several other audit and evaluation reports in this goal area and made suggestions to improve the quality and reliability of the Corporation's telework participation data and further enhance security of data used when teleworking; strengthen controls over the headquarters and Dallas transit subsidy programs; enhance features of the Corporation's IT disaster recovery program and related security controls; and enhance controls for the continuous replacement and disposal process for laptop computers. We also promoted integrity in FDIC internal operations through ongoing OIG Hotline referrals and coordination with the FDIC's Ethics Office. (See pages 30-36.)

Strategic Goal 6

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

We continued to focus on a number of internal activities in this goal area during the past 6 months.

To ensure effective and efficient management of OIG resources, among other activities, we continued realignment of the OIG investigative resources with FDIC regions, by reassigning Office of Investigations staff and advertising

vacancies. We also conducted Virtual Workforce Training for all OIG staff to foster an office-wide understanding of issues related to implementing and carrying out a telework program that increases productivity, improves the quality of work life and morale, and best serves our entire office as we carry out our respective responsibilities under the Inspector General Act. Further, we continued a project to upgrade the OIG's audit and evaluation tracking system and began an associated review of how we are using TeamMate as we conduct audits and evaluations to better leverage that technology and ensure efficiency in our work

In the interest of ensuring quality and efficiency in our work and operations, we completed revising the Office of Audits Policy and Procedures Manual to address changes in the performance audit standards and process changes deemed advisable as a result of an internal assignment management review and external peer review results. We also awarded 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 took steps to better track costs associated with audits and evaluations in the interest of economy and efficiency. 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 incorporated suggested improvements to the form. We also developed a new 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 way of initiatives such as revising career development plans to better align them with OIG goals and integrating training plans for OIG staff in the career development plans, continuing the OIG mentoring program, advertising two expressions of interest for forensic accountants to assist investigators in conducting financial institution fraud cases, and offering opportunities for OIG staff to attend graduate schools of banking.

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). Members of the OIG Employee Advisory Group continued their quarterly meetings with the Inspector General, the OIG participated in corporate diversity events, and we maintained and updated the OIG Web site

| Significant Outcomes | |
|--|---------------------|
| <i>(October 2007 - March 2008)</i> | |
| Audit and Evaluation Reports Issued | 15 |
| Nonmonetary Recommendations | 52 |
| Investigations Opened | 37 |
| Investigations Closed | 39 |
| OIG Subpoenas Issued | 3 |
| Judicial Actions: | |
| Indictments/Informations | 78 |
| Convictions | 42 |
| Arrests | 13 |
| OIG Investigations Resulted in: | |
| Fines of | \$3,550 |
| Restitution of | \$83,354,075 |
| Asset Forfeiture of | \$3,090,081 |
| Other Monetary Recoveries of | \$490,601 |
| Total | \$86,938,307 |
| Cases Referred to the Department of Justice (U.S. Attorney) | 44 |
| Cases Referred to FDIC Management | 0 |
| OIG Cases Conducted Jointly with Other Agencies | 129 |
| Hotline Allegations Referred | 78 |
| Proposed Regulations and Legislation Reviewed | 6 |
| Proposed FDIC Policies Reviewed | 14 |
| Responses to Requests and Appeals under the Freedom of Information Act | 1 |

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) 2008 business planning process, including holding a quarterly meeting to assess progress, and began planning for FY 2009, including ensuring ongoing research and analysis of significant activities and risks within the Corporation and the financial services industry. 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. We will also factor this assessment into our FY 2009 planning. We submitted the OIG's 2007 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 37-42.)



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. As of March 31, 2008, the FDIC was the primary federal regulator for 5,192 FDIC-insured, state-chartered institutions that were 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 for more than 3,300 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. During 2007, the Corporation conducted 2,258 safety and soundness examinations, including a review of Bank Secrecy Act (BSA) compliance, and all required follow-up examinations for FDIC-supervised problem institutions within prescribed timeframes. 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 examination 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 BSA, which requires financial institutions to keep records and file reports on certain financial transactions. FDIC-supervised institutions must establish and maintain procedures to comply with BSA requirements. An institution's level of risk for potential terrorist financing and money laundering determines the necessary scope of the BSA examination. In a related vein, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) promulgates, develops, and administers economic and trade sanctions such as trade embargoes, blocked assets controls, and other

commercial and financial restrictions under the provisions of various laws. Generally, OFAC regulations prohibit financial institutions from engaging in transactions with the governments of, or individuals or entities associated with, foreign countries against which federal law imposes economic sanctions. A challenge for the FDIC is to provide effective oversight of FDIC-supervised institutions' compliance with BSA and OFAC regulations.

In the event of an insured depository institution failure, the Federal Deposit Insurance Act, requires the cognizant OIG to perform a review when the Deposit Insurance Fund incurs a material loss. 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 Federal Deposit Insurance Act), and propose recommendations to prevent future failures. A loss is considered material to the insurance fund if it will exceed \$25 million and 2 percent of the failed institution's total assets. During the past year, three FDIC-insured institutions failed. None of these triggered the FDIC OIG's conducting a material loss review. Our office, however, must be prepared to conduct such a review, as necessary, and will coordinate with the Division of Supervision and Consumer Protection (DSC) and the Division of Resolutions and Receiverships (DRR) to ensure such readiness.

Also of significance with respect to safety and soundness, the FDIC and other federal banking agencies agreed to finalize rules implementing Basel II advanced capital requirements for large, complex banks. The agreement contains important safeguards against unrestrained reductions in risk-based capital requirements for these large institutions. It also provides for the development in the U.S. of the Basel II standardized approach as an option for other banks. The FDIC will continue its work in this realm to ensure strong regulatory capital standards.

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. The OIG's investigators also play a critical role in helping to ensure the nation's banks operate safely and soundly. The Corporation needs to guard against a number of financial crimes and other threats, including money-laundering, terrorist financing, data security breaches, and financial institution fraud. 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 85 percent of the OIG's investigation caseload. Significantly, of 136 open cases as of the end of the reporting period, 38 (28 percent) involved mortgage fraud. The OIG is also committed to continuing its involvement in interagency 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 **2008 performance goals** are as follows:

- Help ensure the effectiveness and efficiency of the FDIC's supervision program.
- Investigate and assist in prosecuting BSA 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 three 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 audits addressed important aspects of the FDIC's examination approaches to risks in FDIC-supervised institutions, as described below. Ongoing or planned audit work in support of the goal area includes FDIC activities addressing liquidity risks, DSC's examination assessment of interest rate risk, the examination ratings process, and affiliate relationships.

FDIC's Consideration of Commercial Real Estate Concentration Risk in FDIC-Supervised Institutions

In this audit, we assessed the FDIC's consideration of institution commercial real estate (CRE) risk management practices during its examination of institutions with identified CRE concentration risk.

We reported that concentrations in CRE lending have been rising in FDIC-supervised institutions and have reached record levels that could create safety and soundness concerns at these institutions in the event of a significant economic downturn. CRE loans are land development and construction loans (including 1- to 4-family residential and commercial construction loans) and other land loans. The risk profile for a CRE loan is sensitive to the condition of the general CRE market (for example, market demand, vacancy rates, or rents).

We found that DSC examiners considered institution CRE risk management practices during FDIC examinations of institutions with potentially significant CRE concentration risks. We also determined, however, that under FDIC guidance, examiner use of a Concentrations page in the report of examination for institutions that have potentially significant CRE and other loan concentrations is optional, including for institutions with identified CRE concentration risks. Examiner use of the Concentrations page for reporting potentially significant CRE and other loan concentrations is an important control for ensuring that associated risk, if any, is considered by institution management and in the examination process. Further, the Summary Analysis of Examination Report (SAER), a tool DSC uses to ensure that the level of oversight accorded to an institution is commensurate with the level of risk it poses to the Deposit Insurance Fund, does not capture CRE concentrations as a separate category for tracking purposes. A key purpose of the SAER is to collect data from the examination for entry into the FDIC's examination database. Including CRE concentrations or adding a CRE concentrations line

to the SAER would enable the FDIC to effectively capture and highlight CRE concentrations information and would provide a better means of updating the examination database.

We therefore recommended that the Director, DSC: (1) clarify guidance regarding the use of the Concentrations page in the report of examination for institutions with potentially significant CRE loan concentrations and (2) clarify the SAER instructions so that potentially significant CRE loan concentrations detected during the examination process are included, or add a line item to the SAER specifically for CRE concentrations. DSC agreed with both recommendations and committed to clarifying examiner guidance, by September 30, 2008, as DSC reviews and updates its risk management program.

Implementation of the FDIC's Supervisory Guidance for Nontraditional Mortgage Products

In another audit completed during the reporting period, we assessed (1) the implementation of the FDIC's Supervisory Guidance for Nontraditional Mortgage Products (Supervisory Guidance—issued in March 2007) and (2) examination coverage of the loan terms and underwriting standards set forth in the Interagency Guidance on Nontraditional Mortgage Product Risks (NTM Guidance—issued in October 2006). The focus of our review was on the FDIC's response to worsening conditions in the mortgage industry, and our scope was limited to FDIC-supervised institutions. The FDIC has provided its examiners the Supervisory Guidance and NTM Guidance to assist in assessing institutions' NTM product activities, including policies and procedures and risk management processes, recognizing that a number of different but prudent practices may exist.

NTM products generally include mortgage loans with interest-only, payment-option adjustable rates, and/or negative amortization terms. Borrowers increasingly turned to NTMs to purchase homes in 2001-2005, when mortgage rates remained historically low and home prices appreciated rapidly in many markets. Although NTM products have been promoted as a way for consumers to make lower monthly payments in the near term, there is significant risk that consumers may not understand that these loan products are structured in a manner that may cause future payment obligations to increase significantly. Also, some NTM products have principal loan balances that increase due to negative amortization. This is particularly problematic when the value of the underlying collateral declines, making it difficult to sell or refinance the property.

The FDIC expects institutions to effectively assess and manage the risks associated with NTM product activities and to ensure that new and relatively untested products are being appropriately underwritten, managed, and marketed. The FDIC's implementation of the Supervisory Guidance has provided a systematic process for the identification of FDIC-supervised institutions with significant involvement in NTM product activities and the determination of supervisory strategies for those institutions. Further, the FDIC's examination coverage of institutions with NTM product activities has addressed the loan terms and underwriting standards set forth in the NTM Guidance. These standards also provide certain protections for consumers. We concluded that the FDIC's guidance and examination coverage have provided a means to identify and mitigate the risks to both institutions and consumers associated with NTM product activities.

The level of FDIC-supervised institution involvement in NTM products is relatively low. That is, through its identification process, the FDIC determined that 30 of approximately 5,250 FDIC-supervised institutions had significant involvement in NTM product activities. To determine the scope and magnitude of NTM product activities at these 30 institutions, the FDIC conducted on-site examinations or visitations. On a continuing basis, the FDIC plans to identify and assess NTM product activities for all FDIC-supervised institutions through the examination process. These actions have provided a means for the FDIC to address the risks posed by NTM products to both institutions and consumers.

For our sample of 15 of the 30 FDIC-supervised institutions identified with significant NTM product activities, DSC had conducted on-site risk management examinations and visitations that covered the loan terms and underwriting standards set forth in the NTM Guidance. For another sample of seven institutions, whose NTM product activities fell under the thresholds DSC defined as significant, examiners had considered the extent of NTM product activities in planning risk management examinations. Also, for those seven institutions, we determined that the examiners had assessed selected activities and controls related to NTM products such as introductory rates, simultaneous second liens, and subprime borrowers. The FDIC's examinations and visitations have assisted in identifying and mitigating the risks to institutions and consumers associated with NTM products in accordance with the NTM Guidance. As a result of these positive findings, we did not make any recommendations in the report.

DSC provided a written response, stating that the FDIC is focusing its attention on significant risks from economic conditions, the fallout from recent unsustainable mortgage lending practices, and disruptions in the credit and capital markets to ensure that FDIC-supervised institutions respond appropriately to maintain their safety and soundness.

FDIC Implementation of the PATRIOT Act

During the reporting period, we also conducted an audit of the FDIC's examination of FDIC-supervised institutions' compliance with the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (PATRIOT Act). Our objectives were to determine whether (1) examination procedures are designed to evaluate institution compliance with the anti-money laundering and terrorist financing provisions of the PATRIOT Act and (2) those procedures were fully and consistently implemented to provide reasonable assurance that institutions with weak programs for detecting money laundering and terrorist financing activity will be identified and appropriate corrective measures taken.

We concluded that the FDIC has issued comprehensive examination procedures designed to assist examiners in evaluating institution compliance with the anti-money laundering and terrorist financing provisions of the PATRIOT Act and has taken other steps to strengthen compliance with the PATRIOT Act. Generally, FDIC examiners implemented examination procedures related to the PATRIOT Act. However, the FDIC could enhance the implementation of examination procedures with respect to institutions' Customer Identification Programs and risk assessments. The report contained two recommendations to improve the FDIC's overall supervisory approach for PATRIOT Act compliance. The FDIC's planned actions 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

Keeping Current with Mortgage Fraud Activities Nationwide

FDIC OIG investigators at headquarters and in OIG field offices currently participate in the following mortgage fraud working groups throughout the country and benefit from the perspectives, experience, and expertise of all parties involved in combating the growing incidence of mortgage fraud schemes.

| | |
|-------------------------|---|
| Headquarters | National Bank Fraud Working Group, National Mortgage Fraud Working Sub-group. |
| Northeast Region | New York Mortgage Fraud Task Force, Eastern District New York Mortgage Fraud Task Force; the Northern Virginia Real Estate Fraud Task Force, Manassas, Va.; the New York-Pennsylvania Bank Fraud Working Group; and the Boston Bank Fraud Working Group. |
| Southeast Region | Southern District of Florida Mortgage Fraud Working Group. |
| Midwest Region | Chicago Mortgage Fraud Task Force, Dayton Area Mortgage Task Force, Cincinnati Area Mortgage Fraud Task Force, and Oregon Financial Crimes Working Group. |
| 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. |

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.

A growing number of our cases address the increased incidence of mortgage fraud. Other significant cases during the reporting period involve securities fraud, obstruction of an FDIC examination, embezzlement, money laundering, 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. Our involvement in such cases is supplemented by our participation in a growing number of mortgage fraud task forces. According to the Federal Bureau of Investigation (FBI), mortgage fraud is one of the fastest growing white-collar crimes. 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, as shown in the write-ups that follow.

Dallas Businessman Sentenced to Nearly 22 Years in Prison in Mortgage Fraud Scheme

In the U.S. District Court for the Northern District of Texas, a Dallas businessman was sentenced to 262 months of incarceration, to be followed by 5 years of supervised release. He was also ordered to pay restitution in the amount of \$2 million. As reported previously, the defendant and three others were indicted in September 2005, in the U.S. District Court for the Northern District of Texas, on seven counts of bank fraud, mail fraud, wire fraud, and conspiracy.

According to the indictment, from December 2002 through March 2004, the four men engaged in a real estate scheme to defraud various real estate lenders, buyers, and sellers, including Fremont Investment & Loan. Three of the defendants located single family residences and 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 the down payment for the loans had been made by the borrowers. One of the

defendants, as an employee of the title company, would release the loan proceeds early to the three others, who would then purchase cashier's checks in the name of the straw borrowers for the requisite down payment. They all caused inflated loan amounts to be funded by mortgage lenders and financial institutions, and conspired to distribute the fraudulently obtained loan proceeds among themselves and others. Three of the defendants also executed contracts between their company, Better Homes of Dallas, and the straw borrowers, stating the company would be responsible for the loans, but they later failed to fulfill their contract.

Joint investigation by the FDIC OIG and the FBI; prosecuted by the U.S. Attorney's Office for the Northern District of Texas and the U.S. Department of Justice Antitrust Division.

Two Illinois Men Sentenced in \$8 Million Real Estate "Land Flip" Scheme

A Decatur, Illinois, businessman who organized an illegal real estate land flipping scheme was sentenced on March 5, 2008, in the U.S. District Court for the Central District of Illinois, to 235 months of imprisonment, to be followed by 60 months of supervised release. On March 12, 2008, in the same U.S. District Court, a Riverton, Illinois, businessman and an associate of the organizer in the same illegal real estate scheme, was sentenced to 97 months of imprisonment, to be followed by 60 months of supervised release. A hearing to impose restitution is scheduled for both defendants in May 2008.

The indictment alleged that from 1999 through 2005, the Illinois businessman, his business associate, and their co-conspirators, an appraiser and mortgage broker, engaged in a real estate "land flipping" scheme to defraud real estate lenders, including Central Illinois Bank, Champaign, Illinois, an FDIC-insured institution; 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 defendants fraudulently obtaining more than \$3 million, which they converted to their personal use and to promote their ongoing scheme.

To carry out the scheme, the two defendants recruited buyers of modest means with little or no experience in rental real estate investment. To entice buyers, the defendants allegedly made one or more false representations related to the properties, their appraised values, associated payments, and assistance and incentives for participation in property purchases.

Charges are pending against a mortgage broker for bank fraud, mail fraud, and conspiracy to commit money

laundering in connection with this scheme. The licensed real estate appraiser at the time of the scheme pleaded guilty to all charges in an August 5, 2005, 11-count superseding indictment that charged the defendants with bank fraud, mail fraud, money laundering, and wire fraud. His sentencing has been postponed to allow him to be a witness at the mortgage broker's trial.

Joint investigation by the FDIC OIG, the FBI, and the U.S. Postal Inspection Service; prosecution is being handled by the U.S. Attorney's Office for the Central District of Illinois.

Real Estate Investor Sentenced to 11 Years in Prison

On October 19, 2007, a purported real estate investor who owned and operated Rashad Investment Group was sentenced in the Northern District of Texas to 11 years of incarceration, to be followed by 60 months of supervised release, and was ordered to pay \$1,443,954 in restitution to victim banks and mortgage lenders. The defendant's sentence is the result of a March 2007 conviction by a jury on all 14 counts of an indictment charging him with bank fraud, wire fraud, and money laundering.

The defendant received his lengthy sentence following a 7-hour sentencing hearing where the government successfully argued to significantly increase the sentencing guideline range by including enhancements for having 10 or more victims, sophisticated means, an organizer-leader role, identity theft, and relevant conduct for losses associated with mortgage loans on seven additional properties not included in the indictment.



The defendant co-conspired with a loan officer from Liberty Mortgage Services and a loan broker and owner of 1st United Mortgage. The defendants were indicted in March 2006 in a 14-count indictment charging bank fraud, wire fraud, and money laundering. The indictment alleged that the defendant held himself out

as a real estate investor who owned and operated Rashad Investment Group. The defendant used the loan officer and the loan broker to originate and process fraudulent mortgage loans. The defendants used schemes commonly referred to in the mortgage industry as property flips, mark-ups and kickbacks, and HUD swaps to facilitate this fraud for profit scheme.

When conducting property flips, the defendants wrote sales contracts to purchase residential real estate property

and then wrote separate sales contracts to immediately sell each property for a fraudulently inflated sales price. A mark-up and kickback was used when a seller of a property was convinced to increase the sales price of their property and kick back the increased amount to one of the defendants after the closing of the sale. A HUD swap was used when closing documents were signed to purchase a property for one price, but a different set of closing documents was submitted to the lender indicating a much higher purchase price.

In each instance, the defendant convinced inexperienced real estate investors to stand in as straw borrowers and purchase the properties for fraudulently inflated sales prices. The loan officer and loan broker submitted false documentation to the lenders to enable the straw borrowers to qualify for the mortgage loans. Each of the straw borrowers received a financial inducement for participating in the fraud scheme. Fraudulent real estate appraisals were also submitted to the lenders to support the inflated sales prices of the properties. As a result of this fraud scheme, the lenders lost over \$1 million. One of the banks impacted was Fremont Investment & Loan, an FDIC-regulated institution.

Joint investigation by the FDIC OIG and the FBI; prosecuted by the U.S. Attorney's Office for the Northern District of Texas

Other Investigative Case Results

Former President and Chief Executive Officer of Farmers Deposit Bank Sentenced to 36 Months in Prison

On March 18, 2008, in the U.S. District Court for the Eastern District of Kentucky, the former president and chief executive officer of Farmers Deposit Bank, Eminence, Kentucky, was sentenced to serve 36 months of incarceration, to be followed by 60 months of supervised release. The defendant was also ordered to pay restitution in the amount of \$13,389,000 to Farmers Deposit Bank.

In October 2007, the defendant pleaded guilty to one count of bank fraud. He was previously charged in December 2006 with 29 counts of bank fraud and one count of misapplication of bank funds. The indictment charged that the defendant concealed substantial losses to the bank by various methods, including making loans under false or misleading names to nominee borrowers in an effort to keep other loans current. The defendant was also charged with altering documents (or causing documents to be altered) that were presented to the Farmers Deposit Bank Board of Directors, altering loan documents to postpone due dates, and structuring loans to avoid detection by the bank's Board of Directors. The indictment also charged that the

defendant misapplied the proceeds of a loan and released solvent borrowers from their loan obligations before the obligations were satisfied.

Joint investigation by the FDIC OIG and the FBI, based on a referral from the FDIC Legal Division and DSC; prosecuted by the U.S. Attorney's Office for the Eastern District of Kentucky.

Former President of the Bank of Paxton Pleads Guilty to Bank Fraud and Obstruction of an FDIC Examination

On February 11, 2008, in the U.S. District Court for the District of Nebraska, the former president and loan officer of the Bank of Paxton, Paxton, Nebraska, was sentenced to 60 months of incarceration, to be followed by 5 years of supervised release, and was ordered to pay \$4.9 million in restitution to the bank. The defendant pleaded guilty to one count of bank fraud and one count of obstructing the examination of a financial institution in July 2007. The Bank of Paxton, an FDIC-regulated institution, lost approximately \$3.9 million as a result of the defendant's criminal activities. The Bank of Paxton was scheduled to be closed on May 23, 2006, due to the fraud, but the bank owner recapitalized the bank and prevented the closing.

From January 2004 to March 2006, the defendant allegedly manipulated 12 loans totaling approximately \$5 million for his benefit and the benefit of others. The loans were made with forged signatures and false financial statements. In addition, during the last two FDIC and state examinations, the defendant allegedly falsified bank documents to conceal his fraudulent activity. Our investigation revealed that just days before the start of bank examinations, the defendant posted positive information on nonperforming loans to give the appearance that the loans were performing. Immediately after the examinations, the defendant reversed the postings. In addition, the defendant submitted false quarterly reports to the Bank of Paxton's Board of Directors to conceal his illegal activity.

He also stole \$300,000 from a wealthy Bank of Paxton bank customer. The customer was on the Board of Directors and the defendant knew that he checked his account infrequently. The defendant was able to steal money out of the customer's account and move it to his wife's account and other accounts where he maintained control.

Joint investigation by the FDIC OIG and the FBI, based on a referral from the DSC Kansas City Regional Office; prosecuted by the U.S. Attorney's Office for the District of Nebraska.

Former Exchange Bank President Sentenced

On March 8, 2008, in the U.S. District Court for the District

of Nebraska, the former president of Exchange Bank was sentenced to serve 30 months of incarceration, to be followed by 60 months of supervised release, and was ordered to pay restitution in the amount of \$717,194 to Exchange Bank. The defendant earlier pleaded guilty to one count of bank fraud with the stipulated amount of the loss not to exceed \$840,000. Exchange Bank lost approximately \$1 million due to the alleged fraudulent activities of the defendant.

From July 2001 through June 2004, the former president allegedly entered into loan agreements and loaned money from the bank to individuals for the purpose of inflating his loan portfolio with Exchange Bank. When the loans were not paid off, the former president would take the money out of third parties' accounts with the bank without the account holders' knowledge in order to make payments on suspect creditors' loans and would then falsify documents to cover up the illegal transaction.

In addition, the defendant directed individuals to provide false vehicle inventories and real estate information to falsely represent collateral for questionable loans. He signed and approved the false financial documents, which gave the impression that collateral was available for the loan in question, when in fact, the collateral stated did not exist and the financial documents were materially false and inflated. When the defendant received cash payments from individuals with questionable loans, he would not apply those cash transactions to loan payments but instead kept those payments for his own use.

Joint investigation by the FDIC OIG and the FBI, based on a referral from the DSC Kansas City Regional Office; prosecuted by the U.S. Attorney's Office for the District of Nebraska.

Former Vice President of Operations at Burlington Bank & Trust Sentenced to 37 Months in Prison

On February 13, 2008, the former vice president of operations, Burlington Bank & Trust, Burlington, Iowa, was sentenced in the U.S. District Court for the Southern District of Iowa, to 37 months of incarceration, to be followed by 3 years of supervised release, and was ordered to pay \$539,130 in restitution to the victim banks. The defendant had pleaded guilty to two counts of bank embezzlement and three counts of money laundering in July 2007.

According to the information, the defendant allegedly made 109 internal transactions causing money to be transferred to his and/or his girlfriend's personal accounts. The defendant's activities caused approximately \$569,115 in losses to the bank.

As part of his plea agreement, the defendant stipulated to an action under 8(e) of the Federal Deposit Insurance Act, which provides for a lifetime ban from banking.

Joint investigation by the FDIC OIG and the FBI based on a referral from the DSC Kansas City Region; prosecuted by the U.S. Attorney's Office for the Southern District of Iowa.

Former Bank Employee of BancFirst Sentenced to 7 Years in Prison

On January 28, 2008, the former vault teller and teller supervisor at a branch office of BancFirst in Seminole, Oklahoma, was sentenced in the U.S. District Court for the Eastern District of Oklahoma, to 84 months of incarceration, to be followed by 60 months of supervised release. She was also ordered to pay \$3,576,627 in restitution.

The defendant pleaded guilty to an information in July 2007 charging her with one count of false entries in the books and records of an FDIC-insured bank and one count of criminal forfeiture. The criminal forfeiture includes a money judgment of \$3,263,695 and forfeiture of personal property, including 11 motor vehicles and tractors, electronic entertainment equipment, furniture, and jewelry.

The defendant admitted to creating false internal bank documents showing the movement of cash in and out of the branch vault, and then separately creating false internal bank documents using the general ledger accounts to cure the account imbalances due to the initial false entries. Doing so allowed the defendant access to approximately \$3,263,695.

The defendant stipulated to an action under 8(e) of the Federal Deposit Insurance Act, which provides for a lifetime ban from banking.

Joint investigation by the FDIC OIG and the FBI, coordinated with the Legal Division, Dallas Regional Counsel's Office; prosecuted by the U.S. Attorney's Office for the Eastern District of Oklahoma.

Bank Customer Signs Plea Agreement

On March 6, 2008, in the U.S. District Court for the Middle District of Florida, Orlando Division, a former bank customer from Windermere, Florida, pleaded guilty to a superseding information charging him with one count of conspiracy to commit securities fraud, one count of conspiracy to commit bank fraud, one count of money laundering, and one count of bankruptcy fraud. The defendant has been incarcerated since his arrest in June 2007 and is awaiting sentencing scheduled for May 2008.

The defendant admitted that beginning in 1989, he and other co-conspirators devised a scheme to defraud investors

by offering stock investments in Transcontinental Airlines Travel Services. The defendants began offering investors the opportunity to invest in an Employee Investment Savings Account program under the guise of Transcontinental Airlines. The defendants falsely claimed to investors that their investments in the Employee Investment Savings Account program were insured by the FDIC up to \$100,000 and further insured up to \$1,000,000 by Lloyd's of London and AIG Insurance. The defendants also provided false financial statements prepared by a fictitious accounting firm misrepresenting the financial status of Transcontinental Airlines and Transcontinental Airlines Travel Services. In total, the defendants received over \$200 million from at least 1,300 investors as a result of the "Ponzi" scheme whereby money from later investors would be paid to earlier investors.

The defendant admitted that beginning in 2001, he and other co-conspirators devised a scheme to defraud a number of FDIC-insured institutions of over \$100 million by applying for and obtaining loans using false financial statements and tax returns prepared by two different fictitious accounting firms. The defendants pledged worthless stock to a number of the loans as security and submitted a number of documents signed by an individual who had been dead for several years. Similar to the investment scheme, the defendant and others defrauded FDIC-insured institutions by executing a "Ponzi" scheme in which money borrowed from the institutions would be paid to other FDIC-insured institutions for earlier loans.

The defendant also admitted to engaging in a money laundering transaction in November 2006 when he wired \$500,000 from a bank account in Florida to a bank account located in the Netherlands. He also engaged in a bankruptcy fraud transaction in March 2007 when he presented a fraudulent claim in the amount of approximately \$5.2 million.

Joint investigation by the FDIC OIG; FBI; IRS Criminal Investigation Division; and State of Florida, Office of Financial Regulation; based on a referral from the DSC Kansas City Region; prosecuted by the U.S. Attorney's Office for the Middle District of Florida, Orlando Division.

Former Customer Sentenced for Bank Fraud in Failure of First National Bank of Blanchardville

On February 20, 2008, in the U.S. District Court for the Western District of Wisconsin, a former bank customer of the First National Bank of Blanchardville (FNBB), Blanchardville, Wisconsin, was sentenced to 140 months of incarceration, to be followed by 5 years of supervised release, and ordered to pay restitution to the FDIC in the amount of \$6,429,670.

After a 3-day trial in October 2007, the defendant was found guilty of 28 felony counts of fraud and conspiracy relating to the failure of FNBB.

By way of background, FNBB was declared insolvent by the Office of the Comptroller of the Currency, and the FDIC was appointed receiver for the failed institution on May 9, 2003. The former president of FNBB, in collusion with the defendant and other bank customers, provided false information to the Board of Directors, issued unauthorized loans in excess of the bank's legal lending limits, solicited and deposited over \$17 million of worthless checks in order to conceal large overdraft accounts and delinquent loans, and filed false call reports and altered bank records in order to mislead federal bank regulators.

As previously reported in July 2006, the former president of FNBB was sentenced to 9 years in prison and ordered to pay \$13.4 million in restitution to the FDIC. He earlier pleaded guilty to one count of bank fraud, admitting that he devised a scheme to defraud FNBB of his honest services, which caused the bank to fail.

Criminal charges are pending against another bank customer who allegedly received over \$6.13 million in fraudulently obtained loans from FNBB and thereafter defaulted on the loans, causing a loss to FNBB of over \$3.77 million.

Joint investigation by the FDIC OIG, the FBI, IRS Criminal Investigation Division, and the U.S. Department of Agriculture OIG, based on a referral from DRR; prosecuted by the U.S. Attorney's Office for the Western District of Wisconsin.

Two Bank Customers Plead Guilty to Bank Fraud

On March 11, 2008, two customers of the now-defunct First National Bank of Northern Kentucky pleaded guilty in the U.S. District Court for the Eastern District of Kentucky to one count of bank fraud. The Bank of Kentucky, an FDIC-regulated institution, purchased the Bank of Northern Kentucky in 2007.

The defendants admitted to conspiring with the former bank president by making false statements on loan applications and arranging loans to be made in the names of various family members, supposedly for legitimate business purposes. The defendants reportedly needed funding to develop and market a number of inventions. The defendants admitted that they conspired in order to evade bank lending limits and avoid federal lending regulations. The funds were then diverted for the defendants' personal use. They spent more than \$2.5 million on personal items out of about \$4.5 million lent to them from March 2000 through July 2002.

Two other defendants have entered guilty pleas for their part in the conspiracy, and charges remain pending against two additional defendants.

Joint investigation by the FDIC OIG and the FBI, based on a referral from DRR; prosecuted by the U.S. Attorney's Office for the Eastern District of Kentucky.

Businessman Sentenced for Securities Fraud

On January 4, 2008, an Indiana businessman was sentenced in the U.S. District Court for the District of New Jersey to 20 months of incarceration, to be followed by 2 years of supervised release. Additionally, as part of his sentence, the defendant agreed to forfeit \$2,850,081 to the government in accordance with his plea agreement. The defendant previously pleaded guilty in September 2007 to one count of conspiracy to commit securities fraud in connection with initial public offerings involving 23 mutual banks in New Jersey, Connecticut, and across the country. A mutual bank is a bank owned by depositors. The depositors are entitled to have the first opportunity to buy shares in the bank when it converts to a publicly traded company.

Investigation disclosed that the defendant organized a complex scheme to circumvent applicable federal and state banking regulations that require mutual banks to apportion shares issued in initial public offerings to depositors, restrict the maximum number of shares offered to such depositors, and prevent depositors from transferring their shares to other depositors. By secretly and fraudulently amassing shares to which he was not entitled and selling them, the defendant and his co-conspirators defrauded eligible depositors and the banks of more than \$2.8 million.

He admitted that beginning in 1994 and continuing to about February 13, 2007, he implemented a scheme to defraud various mutual savings banks, including the FDIC-insured and regulated Provident Bank, headquartered in Jersey City, N.J. The defendant admitted that he directed at least two others to open depository accounts at Provident and other banks he thought were likely to offer shares in an initial public offering. When Provident announced it was offering shares to eligible depositors, the defendant directed others to complete stock purchase order forms that falsely represented that they were purchasing shares for their own accounts, when, in reality, they were purchasing the shares with the defendant's money, in part, for the defendant's benefit.

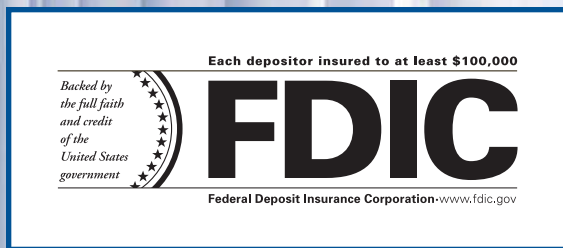
A Strong Partnership

The OIG has partnered with various 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 trust and 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.

For the current reporting period, we are especially appreciative of the efforts of the Assistant U.S. Attorneys in the following offices: Northern District of Texas, Central District of Illinois, District of South Carolina, Eastern District of Kentucky, District of Nebraska, Southern District of Iowa, Southern District of Illinois, Eastern District of Oklahoma, Northern District of Illinois, Middle District of Florida, District of New Jersey—Securities and Health Care Fraud Unit, and the Southern District of Florida. The OIG also worked closely with the Antitrust Division of the U.S. Department of Justice.

The defendant further admitted that he directed at least two others to sell the shares on the open market and wire the proceeds to him.

Joint investigation by the FDIC OIG, IRS Criminal Investigation Division, U.S. Postal Inspection Service, and the FBI; prosecuted by the U.S. Attorney's Office for the District of New Jersey - Securities and Health Care Fraud Unit.



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. A priority for the FDIC is to ensure that the Deposit Insurance Fund (DIF), at \$52.4 billion as of March 31, 2008, remains viable to protect depositors in the event of an institution's failure. 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 Deposit Insurance Fund 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 Deposit Insurance Fund and financial reporting.

Large banks can pose unique risks to the Deposit Insurance Fund. 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. As of September 30, 2007, the 10 largest FDIC-insured institutions controlled almost 46 percent of total assets of all institutions. The FDIC is the primary federal regulator for none of these large financial

institutions but is responsible for insuring their deposits and for resolution in the event one or more of these institutions fail. 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 2006, the Board adopted a number of final rules implementing specific reforms concerning the one-time assessment credit, risk-based assessments, and the designated reserve ratio, and put in place a temporary rule for dividends. In 2007, the Corporation made significant changes to its information technology (IT) systems and business processes in order to prepare invoices and collect assessments in accordance with the new risk-based assessment and credit rules. In September 2007, the Board adopted an advance notice of proposed rulemaking seeking comment on alternative approaches to allocate dividends. During 2008, the FDIC expects to publish proposed and final dividend rules to replace the temporary rule, which will sunset at the end of this year. Also in 2008, the Corporation will continue to modify as necessary the processes and systems implementing the new rules and to begin evaluating the effectiveness of the new assessment methods and processes. Finally, for both 2007 and 2008, the Board adopted a designated (target) reserve ratio of 1.25 percent, which has resulted in the need to set risk-based assessment rates above the base rate schedule in order to gradually raise the reserve ratio to the target.

To help the FDIC maintain the viability of the deposit insurance fund, the OIG's **2008 performance goals** are as follows:

- Evaluate corporate programs to identify and manage risks in the banking industry that can cause losses to the fund.
- Evaluate selected aspects of implementation of deposit insurance reform.

OIG Work in Support of Goal 2

During the reporting period, we issued the results of an audit conducted at the request of staff from the U.S. Senate Committee on Banking, Housing and Urban Affairs, as described below. The objectives of the audit were to determine whether adequate controls are in place

to ensure that the FDIC: (1) receives subsidiary notices from savings associations in accordance with the Federal Deposit Insurance Act and (2) reviews these notices to assess possible risks posed to the Deposit Insurance Fund. The OIG's ongoing or planned audit work in this strategic goal area includes an audit of the Corporation's off-site monitoring activities for insurance risk and an audit of investment management practices related to the Deposit Insurance Fund. We will report the results of these latter audits in an upcoming semiannual report.

FDIC's Receipt and Assessment of Savings Association Subsidiary Notices

The Federal Deposit Insurance Act requires notice to be provided to the FDIC and Office of Thrift Supervision (OTS) 30 days before a savings association establishes or acquires a subsidiary or when the savings association elects to conduct any new activity through a subsidiary under its control. The FDIC's *Case Manager Procedures Manual* establishes procedures for reviewing savings association subsidiary notices in order to determine whether the new subsidiary or activity of an existing subsidiary raises safety and soundness concerns. As of December 31, 2007, approximately 830 savings associations supervised by the OTS were subject to the subsidiary notice requirements. During the period January 1, 2005 to December 31, 2007, the FDIC recorded the receipt of 178 savings association subsidiary notices.

Overall, we concluded that the FDIC has an adequate control process for reviewing subsidiary notices recorded as received. We reviewed a sample of 43 notices (24 percent) out of the 178 savings association subsidiary notices the FDIC recorded in its bank-supervision tracking and reporting database for the period January 1, 2005 to December 31, 2007. We found that the FDIC maintained copies of the notices from the savings associations and had reviewed the notices for possible safety and soundness risks in accordance with its operating procedures. These reviews included obtaining an understanding of the risks of the proposed subsidiary activity, analyzing the savings association's financial condition, and obtaining the views of OTS personnel regarding the proposal in the notice. Finally, the FDIC sent letters of non-objection to the savings associations notifying them of the results of the FDIC's reviews. The FDIC did not identify a concern regarding risk to the Deposit Insurance Fund in any of the reviews.

Our report did not contain recommendations; rather, it provided information for the FDIC's consideration in its ongoing management of this program. DSC commented that it is committed to ensuring that the FDIC receives subsidiary notices from savings associations in accordance with the Federal Deposit Insurance Act and that notices are appropriately assessed for possible risks posed to the Deposit Insurance Fund.



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 the FDIC's 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. During 2007, the Corporation conducted 1,113 Community Reinvestment Act/Compliance examinations. 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.

As the FDIC Chairman has pointed out in a number of Congressional testimonies and in other public speaking engagements, recent events in the credit and mortgage markets present regulators, policymakers, and the financial services industry with serious challenges. The 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 FDIC initiative and a priority for the FDIC Chairman is promoting expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream.

On July 10, 2007, the federal bank, thrift, and credit union regulatory agencies issued the *Statement on Subprime Mortgage Lending* to address issues relating to certain adjustable-rate mortgage products that can result in payment shock. The statement describes prudent safety and soundness and consumer protection standards that institutions should follow to ensure borrowers obtain loans they can afford to repay. The agencies also published illustrations of consumer information designed to help institutions implement the consumer protection portion of the Interagency Guidance on Nontraditional Mortgage Product Risks. The illustrations should help consumers better understand nontraditional mortgage products and associated payment options.

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. Although generally permissible, this outsourcing practice raises certain risks. 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, who are often elderly and dependent on insured savings, have lost millions of dollars in the schemes. Further, abuses of this nature may erode public confidence in federal deposit insurance.

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's DRR 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 **2008 performance goals** are as follows:

- Contribute to the effectiveness of the Corporation's efforts to ensure compliance with consumer protections at FDIC-supervised institutions.
- 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

We completed an audit of DSC's examination procedures related to protecting sensitive customer and consumer information at multi-regional data processing servicers during the reporting period. At the end of the reporting period, we also had several assignments ongoing or planned in support of this goal, including an audit of consumer credit underwriting practices in community banks and an evaluation of the FDIC's Consumer Response Center.

Investigative work related to protection of personal information and misrepresentation of deposit insurance also supported this strategic goal area during the reporting period, as described below.

Examination Procedures for Assessing Selected Controls Related to the Protection of Customer and Consumer Information at Multi-regional Data Processing Servicers (MDPS)

FDIC-insured financial institutions are increasingly outsourcing their critical information technology services to Technology Service Providers (TSP). Frequently, these outsourcing arrangements involve the collection, processing, and storage of customer and consumer information on behalf of financial institutions. The Bank Service Company Act provides federal bank regulators with examination access to TSPs. TSPs that process mission-critical applications for a large number of financial institutions with multiple regulators or geographically dispersed data centers are subject to interagency examination under the Federal Financial Institutions Examination Council's (FFIEC) MDPS program and related examination guidance.

Federal regulators published interagency guidelines that established information security standards for financial institution use in developing and implementing safeguards to protect customer and consumer information. Those guidelines implement statutory requirements for financial institutions intended to protect such information and to deter identity theft. Our audit focused on three selected security control areas contained in the guidelines: the oversight of TSP third-party service providers, incident response programs, and the disposal of information.

We assessed the FDIC's implementation of FFIEC and FDIC examination guidance for the selected controls related to the protection of customer and consumer information at TSPs in the MDPS program. Of the 16 TSPs in the MDPS program, we sampled 3 of the 8 TSPs for which the FDIC served as the Agency-in-Charge for the most recent examination.

We determined that the FDIC has taken a number of proactive steps in its oversight of TSPs in the MDPS program. However, the risk assessments for the three TSPs we reviewed generally did not address the three security control areas (oversight of TSP third-party service providers, incident response programs, and the disposal of information) covered by our audit, and examination documentation we reviewed generally did not contain conclusions on security risks in these control areas. As a result, we were unable to determine whether related examination procedures performed at the three TSPs reviewed were commensurate with the risk of unauthorized access to customer and consumer information.

We recommended that the Director, DSC: (1) provide conclusions on the risks for key security control areas in FDIC examination documentation for examinations of TSPs in the MDPS program in order to provide greater assurance that examination procedures performed are commensurate with identified risks and (2) conduct periodic quality assurance reviews of examination documentation prepared by FDIC examiners under the MDPS program to achieve greater assurance that MDPS examination documentation contains risk determinations for key security control areas, procedures performed are commensurate with identified risk, and examination processes are consistently applied across FDIC regions.

FDIC management agreed with both recommendations, noting that it had begun quality assurance reviews of documentation prepared by FDIC examiners for examinations of TSPs in the MDPS program where the FDIC is the Agency-in-Charge. Further, the FDIC agreed to emphasize the importance of documenting adequate conclusions for key security control areas.

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

As illustrated in the example below, 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 such phishing and pharming scams involving the FDIC and the OIG, as described further on the next page.

Two Securities Sales Representatives Plead Guilty in Fraud Scheme

On December 4, 2007, in the Northern District of Texas, a former securities sales representative of Capital 1st Financial who worked at its offices in Ft. Myers and Sarasota, Florida, pleaded guilty to an information charging him with one count of conspiracy to commit securities fraud. The defendant became the second person to plead guilty in this securities fraud scheme.

By way of background, the first defendant pleading guilty to one count of securities fraud operated out of Florida and misled elderly investors into believing their funds were being invested in FDIC-insured certificates of deposit that were pooled together and placed in a limited partnership called Secured Capital Trust, LTD. The funds collected from investors were actually used to buy shares of Interfinancial Holdings (IFCH), a thinly-traded penny stock. The defendant did not disclose to investors that his associates owned millions of shares of IFCH stock or that investor funds were being used to buy IFCH stock in an attempt to manipulate and increase the share price of the stock.

The second defendant, who resides in Dallas, Texas, made the majority of his sales to either another co-conspirator, or other individuals and entities acting in concert with his co-conspirator. The second defendant knew that IFCH was merely a shell corporation with minimal assets, but he actively participated in the conspiracy by buying and selling IFCH stock in multiple brokerage accounts. The second defendant derived approximately \$1,628,482 in proceeds from the fraudulent sales of IFCH stock during the conspiracy.

The State of Florida, Office of Financial Regulations, filed a temporary injunction, appointed a receiver, and shut down the operations in Florida. The IFCH stock price subsequently fell, and the investors lost the majority of their funds.

Joint investigation by the FDIC OIG and the FBI; prosecuted by the U.S. Attorney's Office for the Northern District of Texas, Dallas Division.

Electronic Crimes Unit Success

During the reporting period, the ECU opened three new cases related to fraudulent emails involving the FDIC. The emails, purportedly from the FDIC, attempted to entice victims to pay a deposit to receive an insurance settlement. While investigating these cases, the ECU was able to have 10 fraudulent email accounts deactivated. In these cases, the ECU traced the schemes to locations outside of the United States. The ECU has made contact with law enforcement in the foreign country where the emails appear to have

originated and will continue to work with foreign law enforcement in investigating these fraudulent schemes that falsely use the FDIC name.

Additionally, the ECU investigated two new instances of phishing websites Web sites involving the FDIC. In both cases, the ECU, working with an FDIC contractor, Brandimensions, was able to have the Web sites deactivated.

The ECU also provided forensic computer assistance on 13 existing and 8 new FDIC OIG cases during the reporting period. The cases involved bank fraud at open and closed financial institutions and employee misconduct cases involving the improper use of FDIC computers. The forensic computer assistance involved the analysis of electronic evidence gathered from computers and other electronic media. The ECU typically searches the electronic evidence for key-words or phrases; searches for documents, emails, and other artifacts; and recreates specialized software applications such as accounting software.



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 exists to plan and efficiently handle the resolutions of failing FDIC-insured institutions and to provide 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 are becoming more complex, and the industry is consolidating into larger organizations. As a result, the FDIC could potentially have to handle a failing institution with a significantly larger number of insured deposits than it has had to deal with in the past.

Although there have been far fewer failures in recent years, during 2007, three FDIC-insured institutions failed. DRR must be ready to resolve troubled institutions and is, in fact, continuing to focus on its ability to resolve institutions of any size. According to FDIC analysis, the failures of the 1980s and early 1990s were concentrated in the energy, agriculture, and commercial real estate sectors. In contrast, more recent bank failures are largely attributable to fraud, mismanagement, improper accounting and reporting

practices, and losses related to investments in subprime lending.

Through the development of new resolution strategies within the various DRR business lines, the FDIC must set far-reaching plans for the future to keep pace with a changing industry. DRR has developed models to train FDIC staff and prepare for differing circumstances. One major corporate initiative is the Corporation's Strategic Readiness Project, which the OIG has monitored since project inception, as discussed below.

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) is prepared to send 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.

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 **2008 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 that lessen or otherwise affect recoveries by the Deposit Insurance Fund, involving restitution or otherwise.

OIG Work in Support of Goal 4

As discussed in more detail below, during the reporting period our Office of Evaluations examined the Corporation's ongoing efforts to develop and implement a new insurance determination system by 2009. This system is being designed to meet the current and future deposit insurance determination needs of the Corporation. We also continued monitoring corporate efforts to prepare for the possibility of a large bank failure. At the end of the reporting period, the

OIG's ongoing or planned work in support of this strategic goal area included an audit of internal control in the FDIC's receivership accounting process and an audit of protection of resolution and receivership data managed or maintained by FDIC contractors.

The FDIC's Evaluation of Deposit Insurance Claims and Payments System Solutions

The FDIC's Claims Administration System (CAS) is a development effort to automate the handling of deposit insurance determination functions and the processing and payment of claims associated with failed financial institutions. DRR is the project sponsor for CAS. We performed a review at DRR's request to determine (1) the extent to which two different approaches to developing the claims system (one developed in-house and the other by a contractor) met the FDIC's CAS criteria and (2) whether the FDIC followed existing policies and procedures in evaluating and selecting a CAS solution.

We noted several issues associated with the project warranting management attention. The FDIC promptly took several actions that were generally responsive to the conclusions and suggestions contained in our report.

The OIG Continues to Monitor the FDIC's Strategic Readiness Project

The failure of a large bank is not only one of the greatest risks to the Deposit Insurance Fund but it is also an event that could shake the public's confidence in the nation's financial system. Recognizing its role in resolving failed institutions and maintaining public confidence, the FDIC has continued its Strategic Readiness Project to test and evaluate its processes for handling the possibility of a large bank failure. The purpose of the project, which began in January 2007, was to test the command and control plan associated with a large bank failure, enhance the FDIC's ability to determine an effective resolution strategy, advance knowledge of the process, and identify lessons learned. The FDIC's Corporate University is directing this project and has used focused exercises and high-level simulations to test and evaluate its processes. During the reporting period, the OIG continued to monitor this project.

The OIG needs to be ready for any large failure and determine whether fraud is a contributing factor. We also need to be prepared to help review the circumstances that cause a large bank failure and make recommendations, if appropriate, to strengthen the regulatory process.

FDIC Debtor Ordered to Pay Remaining Restitution Payment of \$428,591

The OIG continues to conduct concealment of assets investigations to protect the FDIC's interests as receiver of a failed institution. As referenced earlier, typically, in such cases, the OIG pursues instances where an individual commits a fraud to avoid paying the FDIC civil settlements, court-ordered restitution, and other payments as the institution receiver.

Following the initiation of an OIG investigation and the issuance of grand jury subpoenas for records, an FDIC debtor who was previously ordered to pay restitution in the amount of \$841,200 to the FDIC as a result of a 1994 conviction submitted a financial statement in February 2005 to the Financial Litigation Unit of the United States Attorney's Office, Miami, FL. The financial statement indicated that the debtor did not have the ability to make his restitution payments. Our investigation disclosed that the debtor failed to list all his income and assets on the financial statement. The investigation resulted in the debtor pleading guilty to an information filed in November 2007, charging him with one count of false statements. He was sentenced to 5 years of supervised release and was ordered to pay restitution in the amount of \$428,591, the amount remaining on his original restitution order.

This case was prosecuted by the U.S. Attorney's Office for the Southern District of Florida.

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: In the aftermath of corporate downsizing, and in light of a growing number of employees with retirement eligibility, the FDIC was faced with significant human capital challenges. The FDIC established a human capital framework and strategy to guide its evolution toward a more flexible permanent workforce that will be capable of responding rapidly to significant changes in the financial services industry or unexpected changes in workload or priorities. The implementation of the Corporate Employee Program, the Succession Management Program, and the Leadership Development Program are initiatives to that end. To cross-train employees and build a more diverse and ready workforce, the FDIC also created the Professional Learning Account program in 2007 to allocate time and money for each qualified employee to manage, in partnership with the employee's supervisor, the employee's learning goals.

In the interest of making the FDIC an employer of choice, increasing FDIC employee engagement and empowerment, enhancing trust between FDIC managers and employees, and refining the Corporation's pay-for-performance system, the Chairman of the FDIC spearheaded a comprehensive employee survey that was carried out by an independent consulting group during 2007. The Chairman is committed to effecting necessary changes based on the results of the survey.

In an age of identity theft risks, another 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.

Supplementing the FDIC workforce are contractors



providing services for the Corporation. According to the Corporation's New Financial Environment data, the FDIC had \$1.52 billion in outstanding contracts as of December 31, 2007, and awarded approximately \$379 million in contracts during 2007. 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.

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 2008, the approved budget totals \$1.14 billion. 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.). Program support costs are allocated to the three business lines so that the fully loaded costs of each business line are displayed in the operating budget approved by the Board.

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. A number of the Corporation's more costly IT projects are approved as part of the investment budget process.

Expenditures from the Corporate Operating and Investment Budgets are paid from two funds managed by the FDIC—the Deposit Insurance Fund and the FSLIC 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 improvements 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 has required agencies to establish and implement comprehensive privacy and data protection procedures and have an independent third-party review performed of their privacy programs and practices. The OIG has performed yearly evaluations of the Corporation's information security and privacy programs and will do so again in 2008.

Physical Resources: The FDIC employs approximately 4,500 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 **2008 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. We performed evaluations of the FDIC's telework program, transit subsidy program, and contract rationalization. We also examined a number of IT security-related issues, such as IT disaster recovery and corporate processes for replacing and disposing of laptop computers. We looked at broader issues of IT procurement integrity and governance as well as a more focused contract audit of the infrastructure services contract. One of our most comprehensive assignments was an evaluation of the FDIC's enterprise risk management program. Results of these reviews are discussed below. Additionally, ongoing or planned work in this area includes evaluations of the FDIC's Corporate Employee Program and the energy efficiency of FDIC datacenters and IT equipment, and audits of FDIC benefits contracts (e.g., relocation services), general ledger accounting, and e-mail security.



The FDIC's Telework Program

Since October 2000, the Congress has continued to express its desire for federal agencies to create viable telework programs through a number of legislative actions. Telework programs allow employees with appropriate work projects to work at home or in other approved

work sites if they meet telework program requirements and obtain approval from their supervisors. In May 2001, the

FDIC introduced a Telework Pilot Program, which became permanent in May 2003.

We conducted an evaluation and determined that the FDIC has established a telework program that is consistent in most respects with applicable federal standards and guidelines and recognized best practices. We noted, however, that the Corporation's time and attendance reporting system was not configured in a way that would provide the FDIC with sufficiently reliable data to draw valid conclusions regarding the extent of participation in its telework program. We also reported that the FDIC could better assess its program by conducting an evaluation of the program, consistent with corporate policy, and establishing measurable goals. The FDIC also needed to clarify the role that telework plays in its business continuity and pandemic event plans and policies, and conduct tests to evaluate the viability of telework arrangements under both scenarios.

The FDIC received an award in 2006 for its innovative use of technology to support employees who teleworked. Further, the Corporation has issued extensive guidance on protecting sensitive information and implemented controls to address Office of Management and Budget (OMB) and General Services Administration (GSA) information security requirements associated with teleworking. Most notably, the FDIC requires two-factor authentication for user identification, and remote network sessions are encrypted. However, the FDIC needs to complete initiatives that will provide greater assurance that sensitive electronic information—stored on removable media and Personal Digital Assistant devices often used for teleworking—is safeguarded from unauthorized disclosure. The FDIC could also take steps to further protect data from unauthorized access during telework sessions on non-FDIC computers.

We made nine recommendations to improve the quality and reliability of telework participation data; conduct an evaluation to determine whether the FDIC's telework program is meeting management's expectations; ensure that teleworkers are prepared and supported during emergency situations and pandemic events; further enhance security over data used when teleworking; and improve the efficiency of telework forms. Management concurred or partially concurred with eight of our nine recommendations and offered a reasonable explanation for disagreeing with the remaining recommendation.

The FDIC's Transit Subsidy Program

The Federal Employees Clean Air Incentives Act required federal agencies to implement transit benefit programs for eligible employees. The FDIC implemented its Transit



Subsidy Program in April 2000 to encourage employees to use mass transit in an effort to reduce the use of petroleum-based products, air pollution, noise, and traffic congestion in major metropolitan areas when commuting from their residence to their permanent duty station.

We conducted a review of the program because the U.S. Government Accountability Office (GAO) and other federal Inspectors General had reported instances of federal employees abusing transit benefit programs. Our evaluation objective was to review the FDIC's efforts to monitor and efficiently administer its transit subsidy program. To do so, we assessed the extent to which the FDIC had (1) established policies and procedures necessary to ensure that only qualified employees received the subsidy and that they received the correct amount; and (2) implemented controls and ensured that FDIC employees were complying with established procedures.

The FDIC had established policy for the transit subsidy program that addressed employee eligibility requirements, program office and employee responsibilities, and procedures for employees to follow when participating in the program. This policy addressed most of the controls suggested by GAO and OMB to ensure that qualified employees receive the correct subsidy amount. However, the policy did not include, nor did we identify, sufficient operating procedures for the headquarters or Dallas transit subsidy programs.

The FDIC had also implemented program controls that helped to ensure that employees complied with procedures. Our evaluation testing identified no instances of employee abuse of the transit subsidy program. However, we did see several areas where the Division of Administration could strengthen program controls. Our testing also indicated that headquarters employees participating in the transit subsidy program could do more to meet their program responsibilities.

We made recommendations to improve controls for both the headquarters and Dallas transit subsidy programs related to local operating procedures, records management, employee awareness, separation of duties, controls over transit passes, and accuracy of participant data. Division of Administration management concurred with all of our recommendations and planned to have responsive corrective actions implemented between January and March 2008.

Contract Rationalization

The FDIC has over \$1.5 billion in outstanding contracts. The Acquisition Services Branch awards contracts on behalf of FDIC divisions and offices for a broad array of corporate services, from IT development contracts to contracts to assist with failed bank resolution and receivership efforts. Accordingly, it is important that the FDIC make informed and strategic acquisition decisions when evaluating new procurement requests for possible duplication and assessing existing contracts for continuing need. For the purposes of this report, we referred to those decisions as "contract rationalization."

We conducted an evaluation to assess whether the FDIC has mechanisms in place to periodically evaluate the continuing need for contracts and determine whether there are corporate contracts that can be eliminated. To accomplish our objective, we selected DRR contracts to verify they (1) did not duplicate the services being provided under other corporate contracts and (2) served a continuing business need.

We reported that the FDIC has informal processes in place for evaluating new procurement requests for potential duplication and existing contracts for continuing need. Based on our testing of selected DRR contracts, we determined that these contracts were generally not duplicative of other corporate contracts and addressed a continuing need of the Corporation. We identified two recurring system-related issues that may hinder the Acquisition Services Branch's ability to evaluate contracts for duplication or continuing need and reported these to management.

The FDIC had ongoing actions to address the issues we identified. We also provided management with the information it needed to load certain missing documents into the official contracting file repository. Accordingly, we did not make recommendations in this report and written comments were not required.

IT Disaster Recovery

The OMB has issued policy requiring federal agencies to establish and periodically test their ability to recover from IT service interruptions. In addition, the National Institute of Standards and Technology has developed security standards and guidelines to assist agencies in restoring their information systems following a disruption or failure. Further, organizations can consider adopting a number of industry-accepted practices related to IT disaster recovery.

We conducted an audit and determined that the FDIC has established and implemented an IT disaster recovery capability consistent with federal standards and guidelines and industry-accepted practices.

Among other things, the FDIC has established an alternate processing site and developed written plans to recover its general support systems and mission-critical applications following a disaster. In April 2007, the FDIC's Division of Information Technology (DIT) conducted a test of its IT disaster recovery capability and successfully recovered its general support systems and mission-critical applications. DIT issued a report on the results of its IT disaster recovery testing, including the issues it identified during the testing and associated solutions, to improve future recovery responsiveness and reliability. These accomplishments are positive. However, our audit identified certain areas needing enhancements to further ensure that information security controls are in place in the event of a disaster.

In that regard, we recommended that FDIC management (1) update the FDIC's corporate contingency policy; (2) take steps to ensure that security patches are installed on disaster recovery servers in a timely manner; and (3) document and test, as appropriate, DIT's strategy for recovering key security services. In general, management concurred with our recommendations and is taking responsive corrective action.

Our report also identified opportunities for DIT to enhance its IT disaster recovery performance metrics. We discussed these opportunities with DIT officials during our audit.

FDIC's Replacement and Disposal Process for Laptop Computers

During 2007, the FDIC purchased 3,905 Lenovo T60 Thinkpad laptop computers and related hardware for a total cost of approximately \$7.8 million. The new laptops were intended to provide FDIC employees with faster system/software performance, extended battery life, increased disk storage space, and a larger display screen. In addition, the new laptops include *Pointsec for PC* (Pointsec) encryption software to enhance the security of corporate data. The FDIC's DIT was responsible for the 2007 laptop deployment project.

The FDIC has established policies and procedures for managing FDIC-owned laptop computers throughout their life cycle. In addition, in July 2007, DIT issued *Guidelines for New Laptop Deployment*, which provides detailed procedures for the replacement and disposal of laptops, including procedures for the disposition of the hard drives from used laptops in order to protect sensitive data they may contain.



We conducted an audit of controls over the replacement and disposal process for laptop computers.

We determined that the Corporation had established and implemented generally adequate controls over the computer replacement and disposal processes. Specifically, the FDIC

had implemented a consistent and complete deployment of laptop computers during 2007 in each of the offices we reviewed. Further, DIT personnel at each location we visited maintained documentation in accordance with the DIT Guidelines. All 3,905 laptop computers purchased by the FDIC were received and recorded in the FDIC's laptop inventory system within the timeframes established by DIT. Finally, as stipulated in the new laptop purchase order, the FDIC received a discount for its used laptop computers.

We also found that opportunities exist for the FDIC to enhance controls for the continuous replacement and disposal process for laptop computers in the certain areas. In that connection, we recommended that FDIC management (1) update its internal policy to reflect the FDIC's current business environment for managing its laptop computer inventory and to define policy for the disposal of hard drives; (2) implement additional measures that mitigate the risk of a computer hard drive being lost during the destruction process and subject to unauthorized access; and (3) establish procedures to track and record the replacement of laptop computers returned to the vendor for replacement or service. Management concurred with our recommendations and promptly took responsive corrective actions.

IT Procurement Integrity and Governance

During the reporting period, at the request of the FDIC Chairman, our Office of Evaluations undertook a comprehensive assessment of the integrity of the FDIC's IT procurement activity, and the FDIC's governance framework related to the selection, management, and evaluation of IT projects.

We reported that, overall, the FDIC has controls and processes in place in both areas that generally agree with government-wide norms. We provided a briefing of the evaluation results to the Chairman's office, and management concurred with the nine recommendations we made to enhance IT procurement and governance processes, and is working to implement them.

Infrastructure Services Contract

In connection with our overall evaluation of IT governance and procurement integrity, we performed an audit to assess (1) the FDIC's contract oversight management of Systems Research Applications International, Inc. (SRA), and its subcontractors, including subcontractor selection and performance; and (2) support for payments made by the FDIC for IT goods and services provided by SRA and its subcontractors.

In June 2004, the FDIC's Board of Directors approved expenditure authority totaling \$357 million to procure IT infrastructure services through GSA's Federal Systems Integrations and Management (FEDSIM) Center. In September 2004, FEDSIM awarded a task order [the Infrastructure Services Contract—(ISC)] to SRA under the Millennia Government-wide Acquisition Contract program. As a result of the ISC, DIT was able to eliminate 36 individual IT infrastructure contracts.

FEDSIM acts as the contracting officer with overall responsibility for contract management, while DIT provides critical advice to GSA regarding the performance of SRA and its subcontractors. The Division of Administration provides personnel security services and advice to help ensure that the FDIC's contracting and security interests are protected.

The FDIC implemented a framework of controls designed to ensure effective contract oversight management of SRA and its subcontractors. A number of these controls are based on government and industry-recommended practices. Additionally, SRA selected subcontractors consistent with the Federal Acquisition Regulation and the terms and conditions of the ISC and Millennia contract. However, we reported that the FDIC can strengthen its oversight management of SRA in some control areas.

We recommended increased management attention in the control areas of ISC oversight roles and responsibilities, acquisition policies, award fee determinations, contractor and subcontractor integrity and fitness, and contractor and subcontractor invoice reviews to strengthen ISC governance and promote transparency and communication throughout the ISC program. We also recommended that the Corporation better address performance-based acquisitions in the Acquisition Policy Manual, develop performance-based contract management training, document periodic on-site inspections of procurement files, and clarify the Division of Administration's role regarding ISC procurement actions. Management agreed to take action on our recommendations.

As part of the audit, we engaged the Defense Contract Audit Agency (DCAA) to audit selected invoices submitted by SRA and two of its subcontractors. DCAA found that, except for a minor amount of labor and applied indirect costs that did not meet the labor qualifications of the contract, the costs for IT goods and services invoiced under the ISC were allowable, allocable, and reasonable. The minor questioned costs were forwarded to DIT for appropriate action through GSA.

Enterprise Risk Management

Enterprise Risk Management (ERM) is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise. ERM is designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. During the reporting period, we conducted an evaluation to assess: (1) the extent to which the FDIC has implemented an ERM program consistent with applicable government-wide guidance, and (2) implementation of the Corporation's internal circular, *FDIC Enterprise Risk Management Program*, dated September 25, 2006.

We reported that the FDIC has a number of internally-focused committees and groups that help to keep the Board, Chairman, and senior executives informed of management operations and internal risks facing the Corporation and aid them in their decision-making. Taken collectively, these committees and groups as well as their respective reports and briefings provide a comprehensive means for managing internal risk and establishing transparency. We reported that more could be done, however, to (1) institutionalize how these entities interrelate and support ERM and (2) ensure the continuity of risk management efforts as changes in leadership and/or senior management occur.

We evaluated the FDIC's overall internal ERM efforts against key concepts and principles of the Committee of Sponsoring Organizations (COSO) ERM Framework and determined that the FDIC's overall ERM program varies in some respects from what is recommended by COSO. Although organizations have latitude and flexibility in implementing ERM to meet specific needs, we reported that the FDIC may wish to further study the following aspects of its ERM program to maximize the effectiveness and efficiency of the various risk management activities in place throughout the Corporation.

- Defining and communicating the Corporation's risk appetite and ensuring that corporate objectives are aligned with that appetite;

- Implementing corporate-wide consistent processes for identifying, assessing, and responding to risks;
- Establishing effective channels for the Corporation's Office of Enterprise Risk Management (OERM) to communicate risk information up, down, and across the Corporation; and
- Monitoring the implementation of the overall ERM program.

We also reported that the FDIC could benefit from adding more structure to OERM's existing internal ERM policy and program, by:

- Defining the roles of the FDIC Board, Chairman, and Audit Committee in ERM and reconciling the stated role of OERM with actual practice;
- Issuing comprehensive procedures and guidance to establish consistent processes, tools, techniques, and models for identifying, assessing, mitigating, and reporting risks; and
- Providing corporate-wide training in ERM.

Our report also included a matter for the FDIC's consideration. That is, in the interest of furthering effective corporate governance practices, we suggested that the FDIC examine the relationships between the Corporation's internal and external risk management activities to ensure they are complementary or integrated to the extent they efficiently and effectively mitigate any current or future risks to the successful accomplishment of the FDIC mission.

The report contained seven recommendations and two suggestions intended to: (1) address the variances between certain current FDIC practices and approaches to ERM and those advocated by the COSO ERM Framework and applicable FDIC and government-wide guidance and (2) add clarity and structure to the ERM program. In response, management agreed to:

- Develop a more comprehensive blueprint to enhance coordination and to document the various committees and groups that contribute to ERM,
- Take steps to more clearly define and communicate the Corporation's risk appetite and ensure that corporate objectives are aligned, and
- Clarify the roles of the Chairman, the Board, and the Audit Committee in relation to the ERM program.

These actions were responsive to one of our suggestions and two of our recommendations. Management disagreed with the remaining five recommendations and suggestion. Because the Chairman, who serves as the Corporation's audit follow-up official, was involved in the response process, management's written comments constitute the FDIC's final decisions, and we consider the recommendations closed.



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 Inspector General and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. The OIG adheres to the *Quality Standards for Federal Offices of Inspector General*, issued by the President’s Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). 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, and other FDIC Board members and 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.

The Inspectors General appointed by the President and confirmed by the Senate are members of the PCIE. We fully support and participate in PCIE activities and coordinate closely with representatives from the other financial regulatory OIGs. Additionally, the OIG meets with representatives of the GAO 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 **2008 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 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 investigative resources with FDIC regions, by reassigning OI staff and advertising vacancies. |
| 2 | Conducted Virtual Workforce Training for all OIG staff to foster an office-wide understanding of issues related to implementing and carrying out a telework program that increases productivity, improves the quality of work life and morale, and best serves our entire office as we carry out our respective responsibilities under the Inspector General Act. |
| 3 | Assessed the OIG's FY 2007 operational improvement projects to determine whether the projects met intended goals and outcomes and to ensure continuity with similar or related efforts in FY 2008. |
| 4 | Integrated a new feature in the OIG's Training System to allow staff to scan in training certificates to document continuing professional education credits. |
| 5 | Prepared informational materials outlining needed financial resources for presentation to the FDIC Chairman, OMB, and the House and Senate Appropriations Subcommittees in support of the OIG's FY 2009 budget request. |
| 6 | Ensured secure disposal of OIG old or excess hard drives. |
| 7 | Conducted a project to upgrade STAR—the OIG's audit and evaluation tracking system—and an associated review of how we are using TeamMate as we conduct audits and evaluations in the interest of leveraging that technology and ensuring efficiency in our work. |
| 8 | Began to explore opportunities to leverage the resources of OI's Electronic Crimes Unit and Office of Audits' computer lab, staffs, equipment, and IT staff in the Office of Management. |
| 9 | 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 revising Office of Audits' Policy and Procedures Manual to address changes in <i>Government Auditing Standards</i> (Yellow Book), process changes deemed advisable as a result of an internal assignment management review, and external peer review results. Developed corresponding audit assignment management processes to ensure quality and efficiency. |
| 2 | Awarded 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 as we conduct audits and evaluations and closely monitored contractor performance. |
| 3 | Continued to maintain and update the OIG's Dashboard—a project management monitoring, tracking, and reporting tool for OIG projects. |
| 4 | Took steps to better track costs associated with audits and evaluations in the interest of economy and efficiency. |
| 5 | 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 incorporated suggested improvements to the form. |
| 6 | Developed a new 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. |
| 7 | Began to review and update Office of Evaluations policies and procedures. |
| 8 | Conducted quality control reviews of the OIG's Hotline Program, OI headquarters' offices (Northeast Region and the Electronic Crimes Unit), and the Southeast Region. Developed detailed plan for multiple quality control reviews of Office of Audits operations. |
| 9 | Participated in a best practices exchange program with the Tennessee Valley Authority OIG to share and learn from our respective best practices related to audits, evaluations, investigations, planning, internal management activities, and other projects and related systems and approaches. |

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

| | |
|----------|---|
| 1 | Revised the OIG's Career Development Plan forms, making them more aligned with OIG strategic goals and the training, skills, and experience needed to better achieve those goals. Also integrated OIG training plans in the revised form. |
| 2 | Advertised two Expressions of Interest—forensic accountant positions—to allow OIG staff with accounting skills to assist OIG investigators in conducting investigations of mortgage fraud and other financial institution fraud cases. |
| 3 | 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. |
| 4 | Carried out the OIG's mentoring program and made plans for continuing and enhancing the program in FY 2008. |
| 5 | Held mid-year performance meetings to provide feedback and direction to staff on performance and professional development opportunities. |

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, 2007; meeting with staff from the Senate Committee on Banking, Housing, and Urban Affairs; communicating with and providing requested materials to the cognizant Subcommittees of the Senate and House Committees on Appropriations regarding our FY 2009 budget; notifying interested congressional parties regarding the OIG's completed audit and evaluation work; attending FDIC-related hearings on issues of concern to various oversight committees; and coordinating congressional staff participation at the OIG's Emerging Issues Symposium in November 2007. |
| 2 | Responded to a request from the Chairman, House Committee on Oversight and Government Reform, for information concerning recommendations made by the OIG from January 1, 2001 through December 7, 2007 that had not been implemented by management officials. Reported that during the period in question, we issued 250 audit and evaluation reports containing a total of 841 recommendations. The OIG and FDIC management reached agreement on 837 of those recommendations, leaving 4 unimplemented recommendations from 3 reports. Of the four, FDIC management did not agree to implement two, and two had past due completion dates and had been rescheduled for closure in the future. |
| 3 | 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. |
| 4 | 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. |
| 5 | Held quarterly meetings with FDIC Directors and other senior officials to keep them apprised of ongoing audit and evaluation reviews and results. |
| 6 | 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, and asset and restitution cases. |
| 7 | Participated at Audit Committee meetings and presented planned 2008 assignments and the results of significant completed audits and evaluations for consideration by Committee members. |
| 8 | Reviewed 14 draft corporate policies on a range of topics and raised 7 policy issues for consideration in the draft documents. Among the policies we reviewed were those related to the following: Public Disclosure Reports and Other Related Employee Ethics Forms Required to be Filed, IT Security Risk Management Program, FDIC Enterprise Architecture Program, Privacy Policies and Tracking Technologies on FDIC Web sites, and the FDIC Corporate Employee Program. Our comments are incorporated in final policy, as determined by FDIC management. |
| 9 | Co-sponsored with the other financial regulatory Inspectors General from the Department of the Treasury, Federal Reserve Board, and National Credit Union Administration an Emerging Issues Symposium, with the theme: <i>Consumer, Credit, and Capital Issues in a Changing Economy</i> . Representatives from the regulatory agency OIGs and other government agencies came together to hear from leading experts and congressional staff about emerging issues that impact our collective and individual work and responsibilities. |
| 10 | Supported the Inspector General community by attending monthly PCIE meetings and participating in PCIE Audit and Inspection & Evaluation Committee meetings; providing audit, investigative, and counsel resource assistance to the Federal Housing Finance Board and EX-IM OIGs; detailing an investigative agent to the Surveys and Investigations staff of the House Appropriations Committee; providing support to the Inspector General community's investigative meetings and training activities; and successfully coordinating the writing and publishing of the Inspector General community's FY 2007 <i>Progress Report to the President</i> . |
| 11 | 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 Board, and EX-IM Bank) to discuss audit and investigative matters of mutual interest. |
| 12 | Continued to hold quarterly meetings of the OIG's Employee Advisory Group to provide the elected staff an opportunity to meet with the Inspector General to discuss issues of OIG-wide interest or concern. |
| 13 | Reviewed the Corporation's Employee Engagement Survey results, with particular attention to results for the OIG in order to identify any areas of special concern. |
| 14 | Developed a new Inspector General commendation award and related criteria to recognize OIG staff who had contributed in an outstanding manner to the mission of the FDIC OIG during the previous year. |
| 15 | Continued to post and/or update information on the FDIC OIG Internet (www.fdicig.gov) and Intranet sites to ensure transparency and stakeholder accessibility to OIG products, including Semiannual Reports to the Congress, audit and evaluation reports, and investigation-related press releases. |

Enhance OIG Risk Management Activities

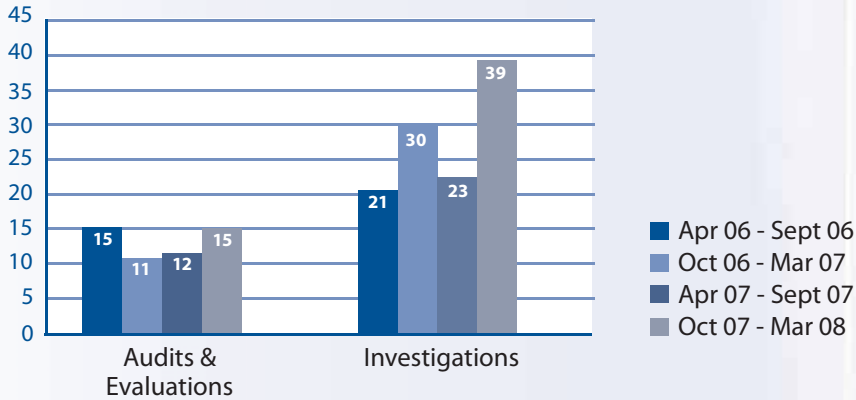
| | |
|----------|---|
| 1 | Continued efforts to carry out and monitor the OIG's FY 2008 business planning process, including holding a quarterly meeting to assess progress, and began planning for FY 2009. Planned a series of internal OIG meetings to validate strategic and performance goals, and ensure ongoing research and analysis of significant activities and risks within the Corporation and the financial services industry. |
| 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 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: Identifying and Mitigating Risks to the Deposit Insurance Fund; Ensuring Institution Safety and Soundness Through Effective Examinations, Enforcement, and Follow-up; Contributing to Public Confidence in Insured Depository Institutions; Protecting and Educating Consumers and Ensuring Compliance Through Effective Examinations, Enforcement, and Follow-up; Being Ready for Potential Insured Institution Failures; and Promoting Sound Governance and Managing and Protecting Human, Financial, Information Technology, Physical, and Procurement Resources. Management included a detailed write-up of the challenges in its performance and accountability report. |
| 4 | Submitted the OIG's 2007 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. |
| 5 | Provided the OIG's perspectives related to internal fraud risk 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. |
| 6 | Identified key hard copy and electronic records that the OIG should maintain in a secure off-site location to ensure continuity of operations in the event of an emergency. |
| 7 | Participated in the Corporation's position risk designation review to ensure the OIG's designations accurately reflect the risk posed to the Corporation and that such designations are revised whenever the risk related to a position changes. |
| 8 | Monitored access to OIG space to ensure proper authorization of individuals with access. Also held meetings with OIG floor marshals to ensure their readiness to act in an office emergency situation. |

Cumulative Results (2-year period)

Nonmonetary Recommendations

| | |
|-----------------------------|----|
| April 2006 - September 2006 | 48 |
| October 2006 - March 2007 | 35 |
| April 2007 - September 2007 | 7 |
| October 2007 - March 2008 | 52 |

Products Issued and Investigations Closed



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



REPORTING REQUIREMENTS

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

| Reporting Requirements | |
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| Section 5(a)(10): Audit recommendations more than 6 months old for which no management decision has been made | 48 |
| Section 5(a)(11): Significant revised management decisions during the current reporting period | 48 |
| Section 5(a)(12): Significant management decisions with which the OIG disagreed | 48 |

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

Review of Legislation and Regulations

The FDIC OIG is tasked under the Inspector General Act of 1978 with reviewing existing and proposed legislation and regulations relating to programs and operations of the Corporation. The FDIC OIG is required by Section 5(a) of the Act to make recommendations in the semiannual report concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by the Corporation or the prevention and detection of fraud and abuse in its programs and operations. The Office of Counsel has been following the status of various bills relating to the IG community, in particular the Inspector General Reform legislation. Counsel is also monitoring bills directed towards reforming the financial services industry, including Economic Stimulus legislation, Credit Card Billing Practices legislation, Foreclosure Prevention legislation, and FHA Mortgage Refinancing legislation. However the OIG has not provided written comments on these bills to the Congress.

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 FDIC's OERM and (2) the OIG's determination of closed recommendations for reports issued after March 31, 2002. These 5 recommendations from 4 reports involve improvements in operations and programs. OERM has categorized the status of these recommendations as follows:

Management Action in Process: (5 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 | | |
| EVAL-06-014 FDIC's Industrial Loan Company Deposit Insurance Application Process July 20, 2006 | 5* | Issue guidance clarifying corporate expectations for deposit insurance investigations and emphasizing that examiners should document the basis for their conclusions in the report of investigation. |
| 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. |
| EVAL-06-026 FDIC's Contract Administration September 29, 2006 | 3 | Establish firm target dates and devote dedicated resources for completing the Acquisition Policy Manual and related contracting documents, contract clauses, and provisions. |
| | 13 | Define requirements for the new automated procurement system, including to address the New Financial Environment shortcomings identified in this report. |
| 07-006 Management Report: Independent Evaluation of the FDIC's Information Security Program - 2006 March 28, 2007 | 3† | Maintain documentation to ensure that all FDIC-issued identification badges are authorized and approved by appropriate officials. |

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

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-08-003 November 30, 2007 | FDIC's Implementation of the USA PATRIOT Act | | | |
| AUD-08-005 February 7, 2008 | FDIC's Consideration of Commercial Real Estate Concentration Risk in FDIC-Supervised Institutions | | | |
| AUD-08-009 March 31, 2008 | Implementation of FDIC's Supervisory Guidance for Nontraditional Mortgage Products | | | |
| Insurance | | | | |
| AUD-08-007 March 18, 2008 | FDIC's Receipt and Assessment of Savings Association Subsidiary Notices | | | |
| Consumer Protection | | | | |
| AUD-08-002 November 30, 2007 | Examination Procedures for Assessing Selected Controls Related to the Protection of Customer and Consumer Information at Multi-regional Data Processing Servicers | | | |
| Resources Management | | | | |
| AUD-08-001 October 29, 2007 | FDIC's IT Disaster Recovery Capability | | | |
| AUD-08-004 January 28, 2008 | Verification of the FDIC's Data Submissions through the Governmentwide Financial Report System as of September 30, 2007 | | | |
| AUD-08-006 March 12, 2008 | FDIC's Replacement and Disposal Process for Laptop Computers | | | |
| AUD-08-008 March 27, 2008 | FDIC's Contract Oversight Management of the Infrastructure Services Contract | | | |
| Totals for the Period | | \$0 | \$0 | \$0 |

Table III: Evaluation Reports and Memoranda Issued

| Number and Date | Title |
|----------------------------------|---|
| Evaluation Reports | |
| EVAL-08-001 November 30, 2007 | FDIC's Internal Risk Management Program |
| EVAL-08-002 December 6, 2007 | FDIC's Telework Program |
| EVAL-08-003 January 2, 2008 | Evaluation of Contract Rationalization |
| EVAL-08-004 January 3, 2008 | FDIC's Transit Subsidy Program |
| Evaluation Memoranda | |
| EM-08-001 February 4, 2008 | FDIC's Evaluation of Deposit Insurance Claims and Payments System Solutions |
| EM-08-002 March 4, 2008 | Information Technology Procurement Integrity and Governance |

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: 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 VI: Status of OIG Recommendations Without Management Decisions

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

Table VII: Significant Revised Management Decisions

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

Table VIII: Significant Management Decisions with Which the OIG Disagreed

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

Table IX: Instances Where Information Was Refused

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

CONGRATULATIONS AND FAREWELL

The OIG congratulates two members of the OIG who retired after distinguished federal careers.



Ken Meyd

Ken Meyd retired after 34 years of federal service. His career began in 1973 and included service as an auditor with the Department of the Army's Army Audit Agency and later the General Services Administration. In June 1990, he joined the FDIC Office of Inspector General as an auditor and soon after joined the investigative ranks in February 1991. In November 1992 he was promoted to a senior criminal investigator in the Office of Investigations, a position he held with distinction for over 15 years.

Mr. Meyd's work often involved the investigation of restitution fraud resulting in the successful prosecution of many high-profile FDIC debtors. His accomplishments were often acknowledged and recognized by U.S. Attorneys, the FDIC Legal Division, and others within the Inspector General community. In October 2006, he received a prestigious Award for Investigative Excellence from the President's Council on Integrity and Efficiency for his work on the successful prosecution of Edwin T. McBirney. In other cases, he provided invaluable assistance to the FDIC Legal Division and the Division of Resolutions and Receiverships in the negotiation of settlement agreements that resulted in multi-million dollar payments to the FDIC.



Loretta Weibel

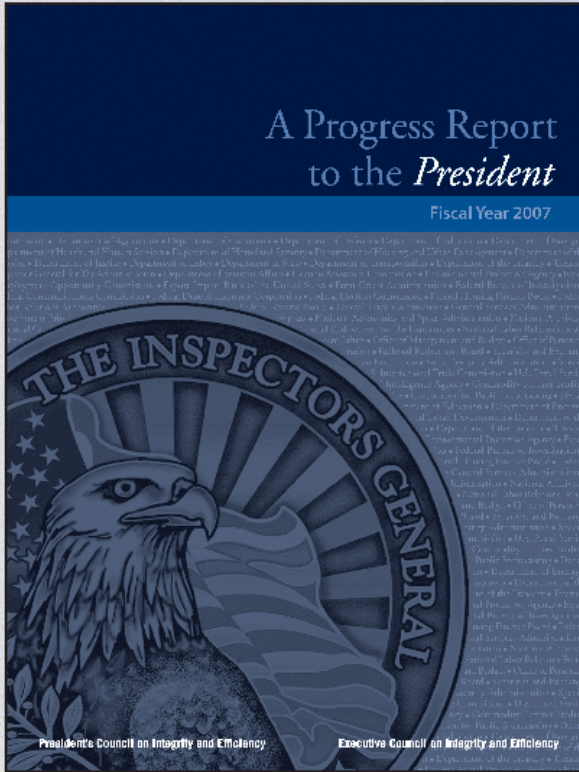
Loretta Weibel also retired after 34 years of federal service. Her career began in June 1973 at the Defense Contract Audit Agency where she served for nearly 18 years. In February 1991, she joined the Resolution Trust Corporation (RTC) Office of Inspector General and transitioned to the FDIC at RTC's sunset in 1995.

Highlights of Ms. Weibel's work at the RTC and FDIC included: numerous contract and asset management audits; participation on the team conducting a material loss review of the failure of Southern Pacific Bank; audits and evaluations of supervision and insurance activities within the FDIC, particularly supervision and deposit insurance

applications for industrial loan companies; and evaluations of various corporate programs and activities, including one of the first significant reviews of safeguards over personal employee information.

Her accomplishments were often acknowledged by her management and colleagues, and others within the Inspector General community. In October 2005, she received a prestigious Award for Excellence from the President's Council on Integrity and Efficiency for her outstanding work on the complex evaluation of the FDIC's approach for supervising limited-charter depository institutions. Again in October 2006, her work on safeguarding personal FDIC employee information was recognized with a well-deserved second Award for Excellence from the Inspector General community.





The FDIC OIG is a proud member of the President's Council on Integrity and Efficiency, whose fiscal year 2007 significant activities and accomplishments, along with those of the member agencies of the Executive Council on Integrity and Efficiency were captured in the Inspector General community's annual report, *A Progress Report to the President, Fiscal Year 2007*.

In fiscal year 2007, the Inspectors General identified potential dollar savings as well as program efficiencies and enhancements from a range of audits, investigations, evaluations, and inspections. The Inspector General community was also responsible for successful investigations of individuals and entities who threatened government integrity and the public trust. Cumulatively, these efforts resulted in: \$11.4 billion in potential savings from audit recommendations; \$5.1 billion from investigative recoveries and receivables; over 6,800 indictments and criminal informations; over 8,900 successful criminal prosecutions; about 4,300 suspensions or debarments; and nearly 310,000 hotline complaints processed.

The 2007 annual report also focuses on the many collaborative efforts of Inspectors General across government. By joining forces to tackle issues of mutual concern, the Inspector General community has leveraged resources to better address current multi-agency problems, working proactively to prevent such problems in the future.

As noted in the report, the Inspector General community also continued to commit a substantial portion of its resources to auditing agency financial statements. Collectively, this effort represents one of the largest financial statement audit engagements ever undertaken. Similarly, Inspectors General played a key role in performing annual evaluations of agency information system security and privacy protection. Finally, by identifying and helping agencies address management and performance challenges, Inspectors General fostered government accountability and transparency, all on behalf of the U.S. taxpayers.

For access to this report and a more detailed look at the Inspector General community, visit www.ignet.gov/pciecie1.html.



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 more information on audit and evaluation reports discussed in this Semiannual Report, visit our homepage: <http://www.fdicig.gov>

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