



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

DATE: December 8, 2011
TO: Board of Governors
FROM: Mark Bialek
SUBJECT: 2012 Budget Request for the Office of Inspector General

Action Requested

Approval of the 2012 budget for the Office of Inspector General (OIG), which increases by a total of 18.2 percent, as follows:

1. An operating budget of \$20,584,322. The budget provides for 113 positions, an increase of 28 positions over the 2011 authorized staffing level of 85 positions, the cost of which will be partially offset by a \$1.8 million reduction in our contractual professional services funding.
2. A capital budget of \$810,000.

Overview of the OIG's 2012 Budget Components

Component	2011 OpPlan	Proposed 2012 Budget	Increase (Decrease)	% Increase (% Decrease)
Operating	\$18,017,733	\$20,584,322	\$2,566,589	14%
Capital	\$85,000*	\$810,000**	\$725,000	853%
Positions	85	113	28	33%

* plus previous year multi-year capital funds

**Increase is for vehicles, audit software, and other software and hardware

Summary

In 2012, the OIG will need to continue to address its expanded roles resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). We need to be positioned to (1) provide oversight of the Board's numerous responsibilities regarding financial stability and related financial regulatory reform, such as regulating systemically significant nonbank financial institutions; thrift holding companies; securities holding companies; and systemically significant financial market utilities and payment, clearing, and settlement activities, and (2) fulfill our role as a member of the Council of Inspectors General on

Financial Oversight, which monitors the activities of the Financial Stability Oversight Council and performs other assessments. Further, the Dodd-Frank Act designated our office as the OIG of the newly created Bureau of Consumer Financial Protection (Bureau), necessitating the significant expansion of our capabilities. In 2012, we anticipate establishing regional offices in Chicago, San Francisco, New York, and Miami to facilitate our operations around the country.

To meet new requirements while continuing to address existing mandates, our 2012 budget includes a total of \$16.0 million for personnel services, which is an increase of \$3.5 million (27.6 percent) over our 2011 personnel services budget. The 2012 budget includes 28 new positions to be phased in during the year. In contrast, our use of contractual professional services in 2011 has been lower than anticipated, in part due to the raised threshold for when we must conduct material loss reviews of failed state member banks and the lower than anticipated number of state member bank failures. This has allowed us to reduce our projections for contractual professional services in 2012 by \$1.8 million, which helps to offset the increase in our salaries.

In total, the OIG's proposed 2012 operating budget of \$20.6 million and capital budget of \$.8 million represent a net increase of \$3.3 million (or 18.2 percent) over our 2011 budget. We anticipate that the budgeted amounts will allow us to perform our legislated mandate of conducting audits, investigations, and other reviews of the Board and the Bureau to help improve the economy, efficiency, and effectiveness of their programs and operations, as well as prevent and detect fraud, waste, and abuse. As we move forward with meeting Dodd-Frank Act and other mandated requirements, we anticipate that additional growth in our organization will be necessary.

Discussion

The 28 new positions are critical for us to effectively conduct legislatively-mandated and discretionary audits, investigations, inspections, and other reviews of Board and Bureau programs and activities. Our work will include reviews related to financial stability; implementation of Dodd-Frank Act requirements; supervision and regulation, including holding companies and failed state member banks; consumer programs; information security; rulemaking; procurement; and governance, including financial statement preparation and law enforcement programs. The 28 new positions have an estimated personnel services cost of \$4.1 million for 2012.

Overall, the OIG's training budget (tuition and registration) is \$.74 million to ensure that our employees meet continuing professional education requirements under auditing standards and to provide for management and leadership training. In addition, as required by the Inspector General Reform Act of 2008, our training request also includes \$.06 million to support the operations of the Council of the Inspectors General on Integrity and Efficiency. These costs combine with our other operating costs, as shown in Enclosure 2, for a total operating budget of \$20.6 million. This represents an increase of 14.2 percent over our 2011 operating budget.

Our capital budget of \$810,000 includes four vehicles for our regional offices and a replacement vehicle for our Washington, DC, office. It also includes \$200,000 to replace our audit

software, which is no longer being supported by the manufacturer, and funding for other hardware and software items.

We believe our budget request will allow us to meet our requirements for 2012; however, we also recognize that changing events and a competitive market for needed staff skills may impact budget implementation and necessitate adjustments going forward. We will continue to be diligent in managing our resources, and we will inform the Board of any changes that significantly impact our operations.

The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's budget, but it is submitted separately due to the independence of the office.

In accordance with requirements from the Inspector General Reform Act, a summary statement regarding this budget request is included as Enclosure 1. A summary table of our proposed 2012 budget request is included as Enclosure 2. Please contact me if you have any questions or wish to discuss this matter further.

cc: Raj Date

Enclosure 1: Inspector General Summary Statement per Inspector General Reform Act

The Inspector General Reform Act (Pub. L. 110-409) was signed by the President on October 14, 2008. Section 6(f)(1) of the Inspector General Act of 1978, 5 U.S.C. app. 3, was amended to require certain specifications concerning OIG budget submissions each fiscal year.

Consistent with these requirements, the OIG of the Board of Governors of the Federal Reserve System submits the following information relating to the OIG's proposed 2012 budget:

- The OIG's proposed 2012 operating budget is \$20,584,322 and proposed capital budget is \$810,000.
- The portion of this amount needed for OIG training during 2012 is \$742,853.
- The portion of this amount needed to support the operation of the Council of the Inspectors General on Integrity and Efficiency for 2012 is \$60,588.

I certify as the Board's Inspector General that I believe that the amount I have requested for training satisfies all OIG training needs for calendar year 2012.

Enclosure 2: Summary of the OIG's 2012 Budget Request

Category	OPPLAN-2011	Budget Request 2012	Difference	% Increase over 2011 OPPLAN
Salaries	\$10,419,290	\$13,184,642	\$2,765,352	26.5%
Retirement/Thrift Plan	\$1,366,165	\$1,869,329	\$503,164	36.8%
Employee Insurance	\$778,995	\$979,576	\$200,581	25.7%
Personnel Services	\$12,564,450	\$16,033,547	\$3,469,097	27.6%
Travel	\$899,000	\$813,850	(\$85,150)	(9.5%)
Stationery & Supplies	\$32,300	\$33,900	\$1,600	5.0%
Software	\$180,250	\$492,591	\$312,341	173.3%
Furniture & Equipment	\$444,299	\$820,514	\$376,215	84.7%
Rentals (vehicle)	\$0	\$5,000	\$5,000	5,000.0%
Books & Subscriptions	\$52,800	\$38,500	(\$14,300)	(27.1%)
Repairs & Maintenance	\$12,000	\$59,500	\$47,500	395.8%
Contractual Prof Svcs	\$3,190,217	\$1,372,656	(\$1,817,561)	(57.0%)
Tuition/Registration	\$580,278	\$742,853	\$162,575	28.0%
All Other	\$23,000	\$25,000	\$2,000	8.7%
Depreciation	\$11,562	\$113,457	\$101,895	881.3%
IRM User Charge	\$27,577	\$32,955	\$5,378	19.5%
Goods & Services	\$5,453,283	\$4,550,775	(\$902,508)	(16.5%)
Total Operating Funds	\$18,017,733	\$20,584,322	\$2,566,589	14.2%