Preparing
for the 21st Century

FDIC Office of Inspector General

Semiannual Report to the Congress

April 1, 1999 thru September 30, 1999

FDIC

In September 1999 our office held its first Office of Inspector General-wide conference at the Federal Deposit Insurance Corporation. Our conference theme reflects the sincere commitment we have made to continuously improving our work products, processes, and interpersonal relationships. We view the coming year as special, not only because we enter a new century but also because we are determined to significantly increase the value of our contributions to the FDIC and more fully appreciate the diversity of the individuals with whom we work. **Our destination is excellence.**

the journey has begun . . .

OIG 2000

DESTINATION: EXCELLENCE

FDIC • Office of Inspector General

Preparing
for the 21st Century

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Inspector General's Statement

As the countdown begins toward the millennium, the Corporation appears to be well prepared for the new year. As a result of its strenuous efforts over many months, the Federal Deposit Insurance Corporation (FDIC) does not expect major disruptions to either its internal operations or the activities of the financial institutions that it supervises when the calendar changes from 1999 to 2000. The Office of Inspector General's (OIG) work on Y2K matters supports this expectation.

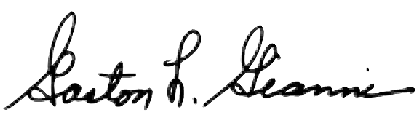
While the Corporation has devoted many resources to addressing Y2K risks, a number of other compelling challenges also require its attention. Advancements in technology are changing the way that financial institutions conduct business. Traditional methods of banking are being replaced by electronic Internet banking transactions. Financial institutions are merging and, in some cases, "megabanks" are being formed. Historical barriers between banking, insurance, and securities operations are being dismantled. The nation's financial institutions are operating in the context of a complex and rapidly fluctuating global marketplace. And at the same time that the Corporation looks to the future and deals with these new conditions and their accompanying risks, it must remain faithful to a promise made in 1933 at another critical moment in our history—protecting the insured deposits of the American people.

On September 1, 1999, the Office of the Comptroller of the Currency closed the First National Bank of Keystone, Keystone, West Virginia. Keystone was a $1.1 billion institution that was closed after evidence of apparent fraud was found that resulted in the depletion of the bank's capital. The FDIC was named receiver, and the resulting loss to the insurance fund is estimated to be between $750 million and $850 million as of September 30, 1999. Such events underscore the need for the Corporation to keep pace with the changing industry environment and its risks, examine whether traditional approaches of supervision and regulation continue to make sense given the changing environment, and explore new ways of delivering on the promise to the American people.

The Corporation has taken a number of positive steps to meet that challenge. The Corporation's performance goals focus on key areas and the FDIC will carefully monitor them. The Chairman has focused additional corporate attention on three priorities and identified senior management officials in the Corporation to serve as focal points to address them. Her priorities are keeping pace with the changing industry, handling emerging risks to the deposit insurance funds, and contributing to U.S. leadership on global deposit insurance issues.

A strong, effective workforce is critical to addressing the Chairman's priorities. In light of the organizational changes that the Corporation has faced over the past several years—brought on by downsizing, buyouts, other departures, and relocations—the Corporation needs to ensure that expertise and experience are replenished. The corporate diversity plan approved by the Board of Directors in May 1999 contains a number of measures to address that need. During the new year the Corporation will continue to implement that plan.

While the OIG is generally viewed as an organization that oversees others, I have encouraged my own office to take a hard look at our internal processes, work products, and working relationships. To ensure that we assist the Corporation in accomplishing its mission, we also need to be fully knowledgeable of emerging risks and attuned to corporate priorities



Gaston L. Gianni, Jr.
Inspector General

excellence in the year 2000 and beyond

and goals. Our work must be well planned to add maximum value. Our communications with the Corporation need to be timely and relevant. We are focusing on improving those processes and, as our September 1999 conference theme suggests, striving for excellence in all areas of our own operations.

Thus, the OIG faces challenges similar to the Corporation's. While still being faithful to the mission outlined in the Inspector General Act that was enacted more than 20 years ago, we too must explore innovative and perhaps nontraditional ways of providing better value to the Corporation and to the Congress as we enter the next millennium. We are committed as well to maintaining a diverse workplace where all individuals can work to their fullest potential as we carry out the OIG's mission. In that regard, we have submitted a diversity report to the Congress, are developing a diversity plan, and have named one of our managers to serve as the focal point to guide our office's diversity activities.

I am pleased to report that over the past reporting period we have made excellent progress in strengthening our working relationships with the Corporation, as the following examples will attest. Of particular significance, several weeks ago the Division of Supervision, the Legal Division, and the OIG issued a joint memorandum that implemented a previously unresolved recommendation stemming from the OIG's Material Loss Review of the Failure of BestBank, Boulder, Colorado, which we discussed in our last semiannual report. Significantly, the memorandum establishes a broad framework within which the OIG and the Division of Supervision will cooperate in the OIG's current and future investigations of certain criminal activity in open financial institutions regulated by the FDIC. A product of considerable effort on the part of all parties involved, the memorandum ensures OIG access to the information necessary to discharge the OIG's responsibility to detect and prevent waste, fraud, and abuse relating to the programs and operations of the FDIC while at the same time respecting the regulatory functions of the Division of Supervision.

As another example, during the reporting period we established our Human Resources Branch in line with the Chairman's concurrence that the OIG should have a separate personnel authority. In doing so, we coordinated closely with the Corporation's Division of Administration, and we particularly appreciate its Personnel Services Branch's assistance to us in the transfer of OIG records and other information. Our efforts relating to the Corporation's Y2K readiness to date have also been highly collaborative and effective, as explained more fully in this semiannual report. In doing our Y2K work, we have combined traditional audit measures with a proactive, consulting-type approach as we coordinate with the Division of Supervision, Division of Information Resources Management, Division of Resolutions and Receiverships, Division of Insurance, and other FDIC offices and divisions on both internal and external Y2K activities.

Further, a review of the Corporation's copier administration program that we conducted in conjunction with the Division of Administration has resulted in significant potential cost savings to the Corporation over a 5-year period. Finally, our efforts with the Corporation's Division of Resolutions and Receiverships to help in the collection of court-ordered restitution and other debts owed to the Corporation were expanded over the past 6 months and have proved beneficial. We are committed to continuing these same types of successful cooperative endeavors going forward.

On a personal note, I have appreciated meeting and working with the many new executives that the Corporation has brought on board since our last semiannual report. One person whose support I will especially miss is Mr. Dennis Geer, who retired from his position as Deputy to the Chairman and Chief Operating Officer in September. I look forward to working with his replacement, Mr. John Bovenzi, the former Director of the Division of Resolutions and Receiverships, in the coming months.

While speaking of corporate leadership, I must reiterate a sentiment from my last semiannual report statement—my hope that the position of Director on the FDIC Board that has been vacant since September 1998 will soon be filled. I understand a replacement name has been submitted for the President's consideration and believe that it is in the best interest of the Corporation for this vacancy to be filled promptly. Doing so would allow for an ample learning period, ensure continuity, and maintain needed historical perspective at the senior-most management level in the event the Chairman and Vice Chairman leave office at the expiration of their terms in October 2000.

In closing, I am proud and appreciative of the work and accomplishments of the FDIC OIG staff as presented in this semiannual report. I am confident that we will successfully continue our journey toward excellence in the year 2000. I am equally proud of the work of the members of the President's Council on Integrity and Efficiency, on which I have served as Vice Chair since May of this year. I look forward to furthering the work of the entire OIG community and working with the Corporation and the Congress to ensure the highest degree of integrity and success in government during the year 2000 and beyond.

Overview

- Major Issues
- Investigations
- OIG Organization
- Appendixes

Major Issues

The Major Issues section of our report focuses on key challenges the FDIC faces as it works to accomplish its mission. The Corporation must address ever-present risks to the insurance funds, the most immediate of which is the upcoming century date change. At the same time, the Corporation must ensure effective supervision of the financial institutions it regulates and protect consumers' rights. With respect to managing and liquidating assets, the Corporation must always seek to maximize recoveries and be particularly vigilant regarding programs where large sums of money are at stake and the FDIC does not control the entire management and disposition process. The Corporation must also continue its efforts to pursue court-ordered restitution and other debts that it is owed. In conducting its information technology activities, the Corporation needs to follow sound system development life cycle procedures, ensure adequate system security, and contract for information technology services in a cost-effective manner. Strong controls and effective oversight of the FDIC's contracting activities throughout the Corporation are also essential to the Corporation's success.

Major downsizing over the past 5 years and natural attrition have greatly impacted the FDIC workplace. The loss of human resources has resulted in corresponding losses of leadership and, in some cases, expertise and historical knowledge. The Corporation's diversity efforts are intended to help restore some of the lost talent and skill. The Corporation must ensure that its corporate diversity plan, approved in May 1999 by the Board of Directors, is fully carried out. Finally, under the provisions of the Government Performance and Results Act, for all of these major issues, the Corporation must establish goals, measure performance, and report on accomplishments.

Our Major Issues section also discusses the OIG's work to help the Corporation achieve success in confronting these major issues. We discuss areas where we identified opportunities for cost savings and recoveries or other improvements and the recommendations we made in those areas. Questioned costs and funds put to better use for the period total $16.4 million. We made 66 non-monetary recommendations. Our work targets all aspects of corporate operations and includes a number of proactive approaches and cooperative efforts with management to add value to the FDIC (see pages 10-29).

challenges...

Investigations

The operations and activities of the OIG's Office of Investigations are described beginning on page 30 of this report. As detailed in the Investigations section, the Office of Investigations is reporting fines, restitution, and recoveries totaling approximately $12.6 million. Cases leading to those results included investigations of contract fraud, theft of FDIC property, and suspected fraudulent activity related to the sale of a mortgage subsidiary. Some of the investigations described reflect work we have undertaken in partnership with other law enforcement agencies and with the cooperation and assistance of the FDIC's Division of Resolutions and Receiverships. To ensure continued success, the OIG will continue to work collaboratively with FDIC management, U.S. Attorneys' Offices, and a number of law enforcement task forces and working groups (see pages 30-33).

OIG Organization

The OIG Organization section of our report highlights several key internal initiatives from the reporting period. These include our learning organization efforts, diversity study, and creation of our Human Resources Branch. Additionally, the section includes a discussion of some of the activities of the President's Council on Integrity and Efficiency, on which the Inspector General serves as Vice Chair. This section also references some of the assistance we have provided to management during the reporting period, including working out final procedures for communications between the Division of Supervision and the OIG regarding open financial institution criminal investigations, coordinating on the FDIC's first overall Business Continuity and Contingency Plan, and making presentations at corporate conferences and meetings. We present a listing of laws and regulations reviewed during the past 6 months and also capture some of our other internal initiatives this reporting period, including the OIG Performance Plan, internal systems development initiatives, and our first office-wide conference. In keeping with our goal of measuring and monitoring our progress, we visually depict significant results over the past 5 reporting periods (see pages 34-41).

Appendixes

We list the Inspector General Act reporting requirements and define some key terms in this section. The appendixes also contain much of the statistical data required under the Act and other information related to our work this period (see pages 42-55).

Highlights

- The Office of Audits and the Office of Congressional Relations and Evaluations issue a total of 26 reports and 11 audit- or evaluation-related memorandums. The reports identify questioned costs of $6.2 million and funds put to better use of $10.2 million. Management disallows $4.9 million questioned.

- OIG reports include 66 nonmonetary recommendations to improve corporate operations. Among these are recommendations to improve cost-effectiveness and controls over contracting, enhance systems security, strengthen supervision and examination activities, better capture performance information in line with Government Performance and Results Act requirements, and fully comply with compliance and Community Reinvestment Act requirements.

- OIG continues to coordinate Y2K work with the Division of Supervision, Division of Information Resources Management, Division of Resolutions and Receiverships (DRR), and Division of Insurance as Year 2000 draws ever closer. Work includes consulting and advising on OIG observations and best practices suggestions and preparing to observe the Y2K "rollover" weekend of December 31, 1999–January 2, 2000.

- OIG investigations result in 7 convictions, 5 indictments/informations; 4 arrests; and about $12.6 million in total fines, restitution, and monetary recoveries.

- Chairman Tanoue issues Corporate directive on *Cooperation with OIG Activities*, setting forth responsibilities of all FDIC employees, contractors, and subcontractors regarding investigations, audits, evaluations, and other activities conducted by the OIG.

- OIG and Division of Administration collaborate on review of the Corporation's copier administration program. These efforts lead to changes that could ultimately result in savings of $9 million to the Corporation.

- OIG reviews 14 proposed or existing federal regulations and legislation and 28 proposed FDIC policies and responds to 21 requests and appeals under the Freedom of Information Act and Privacy Act.

- OIG issues report on OIG workplace diversity to the House Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations.

- Meetings and dialogue result in progress toward issuance of a memorandum that prescribes procedures for communications between the Division of Supervision and the OIG regarding open financial institution criminal investigations.

reviews issues

- In keeping with Chairman Tanoue's acknowledgement that the OIG has the authority to make its own personnel decisions pursuant to the Inspector General Act, the OIG establishes an independent, full-service personnel function and fills the position to lead that activity.

- The OIG furthers efforts with DRR to pursue court-ordered restitution and establishes procedures for ongoing exchange of information. Since June, 7 new cases are being coordinated with DRR, involving a total of almost $10 million in outstanding restitution orders or other types of debt. More than $1.2 billion is owed to the FDIC for criminal restitution. To date, about $138 million has been recovered.

- The OIG and U.S. General Accounting Office continue their joint effort to audit the Corporation's financial statements. The OIG plays increasingly greater role and assumes audit responsibility for major sections of the audit.

- The OIG coordinates with and assists management on a number of projects, including soliciting input for audit suggestions for the year 2000 plan and providing suggestions to improve the Corporation's Standard Asset Valuation Estimation model.

- The OIG holds its first office-wide conference, **OIG 2000—Destination: Excellence**, and, in the spirit of a learning organization that constantly seeks to improve, focuses on better communication, working more efficiently and effectively, leadership, and diversity issues.

audits

investigates

coordination

contents

Major Issues

Under the Inspector General Act, the FDIC OIG is charged with promoting the economy, efficiency, and effectiveness of FDIC programs and operations and protecting against fraud, waste, and abuse that can harm or hinder the Corporation's success. In that regard, the OIG has identified a number of major issues facing the Corporation. The results of our work over the past 6 months are presented in the context of these issues. The major issues are closely related to the Corporation's mission: to contribute to stability and public confidence in the nation's financial system by **insuring deposits, examining and supervising financial institutions, and managing receiverships.** Our work over the past 6 months addresses these major issues and supports the corporate mission.

Addressing Risks to the Insurance Funds

As the FDIC Chairman often emphasizes, the FDIC symbol displayed in the branches of financial institutions across America provides peace of mind to the public. When depositors see this symbol, they know that their insured deposits are safe. For 66 years, the FDIC's mission has been to maintain stability in the nation's financial system and sustain the confidence of the public. Although the challenges to stability have changed through the years, the Corporation's goal has remained steady. A preeminent risk to stability and public confidence over the past several years has been the coming of the Year 2000 and the potential problems associated with that date change.

Corporation Continues Y2K Preparation

The FDIC has taken very seriously the potential threat of Y2K to the stability of the nation's financial system. It has devoted extensive resources to addressing risks posed by the upcoming turn of the century. In remarks before a Year 2000 Summit on September 17, 1999, FDIC Chairman Tanoue explained the Corporation's Y2K efforts, progress to date, and plans for the next few months.

She reported that nearly all federally insured financial institutions are prepared for the Year 2000. As of September 15, 1999, only 27 FDIC-insured financial institutions had a Y2K supervisory rating of less than satisfactory. The Chairman pointed out that these 27 institutions are part of a population of 10,273 financial institutions insured by the FDIC and supervised either by the FDIC or other financial regulatory agencies. As such, they represent about one quarter of 1 percent.

The Chairman affirmed her belief that the banking industry is among the industries best prepared for Y2K. She referenced the fact that the FDIC had heightened scrutiny of the few institutions lagging in their preparedness and spoke of the FDIC taking enforcement actions against institutions that are behind, when necessary. Such actions are made public and can be found listed on the Corporation's Web site: **www.fdic.gov.**

As for the final 3 months of the Year 2000 supervisory program, examiners will focus on key areas, known as the three "Cs":

- Communicate to their customers and business partners about their Y2K readiness efforts. Public relations activities and informational materials are essential in keeping consumers advised.

- Clean management. Making sure that no problems could be re-introduced that would compromise the Y2K readiness of systems. Generally, this activity involves a series of testing and re-testing systems when changes are made.

- Contingency planning. Financial institutions need to make sure consumers have access to their money and other banking services if a Year 2000 disruption occurs. Regulators too must be ready for any possible contingency, no matter how remote.

Finally, the Chairman spoke of possible increases in scams, rumors, and advertising with a negative Y2K theme as the final days of 1999 approach. She warned the public to be wary of individuals who may prey on people's fears and uncertainties, stating: "...if you have your money in a federally insured bank, thrift, or credit union account, keep it there—where it is secure."

The Corporation has developed a comprehensive strategy for coverage of events during the "rollover weekend" of December 31, 1999 - January 2, 2000. The OIG will be on hand to observe the activities of that weekend.

OIG Addresses Final Phases of Y2K Preparation

The OIG's Y2K work has focused on both the FDIC's Y2K supervisory efforts and on its activities related to the readiness of the Corporation's internal systems. We are focusing on all five phases of the FDIC's approach to Y2K: awareness, assessment, renovation, validation, and implementation. Specific details of our work have been discussed in previous semiannual reports. We have communicated concerns and suggestions to FDIC management through briefings and advisory memorandums to achieve a real-time, proactive approach for relaying important Year 2000 information to management. Best practices observed during the audit team's nationwide travels have also been summarized and presented to management. More recently, we have adopted a consulting approach of sharing observations less formally and working closely with the Division of Supervision (DOS), the Division of Information Resources Management (DIRM), the Division of Resolutions and Receiverships (DRR), and the Division of Insurance as they address concerns we have identified. Highlights of our Y2K work during the reporting period follow.

External Supervisory Efforts

- Presented best practice suggestions and observations based on phase II audit work to DOS. Identified practices that field offices used to help ensure consistent, accurate, well-supported phase II assessments, such as additional examiner training and guidance, working proactively with banks on test plans, performing two on-site phase II assessments, and implementing a formal review process for phase II reports.

- Reviewed a total of 110 phase III assessments at 9 DOS field offices. Communicated observations on all 110 and suggestions regarding ratings of 5 of the phase III assessments reviewed.

- Conveyed message that not all field offices had contacted banks to determine their compliance with the FDIC's June 30, 1999 deadline for testing, implementation, and contingency planning, as required by phase III guidance.

- Presented DOS with observations and suggestions on Y2K Tracking System Clean-up Procedures that DOS had provided to its regional offices.

- Provided DOS with information related to phase III universe and sample that was developed to validate answers of institutions that orally claimed to have completed testing, implementation, renovation, and contingency planning by June 30, 1999.

- Visited 14 banks, 7 at the request of DOS, to observe how these banks were informing their customers as to the bank's readiness. Also conducted an Internet search to determine whether Web sites provided Y2K information to consumers. Provided DOS a summary of our results on these consumer awareness issues.

- Reviewed 39 of the 199 Y2K assessments included in DOS's quality assurance review program as of September 23, 1999. Provided observations and suggestions relating to the quality assurance review process.

Internal Efforts

- Monitored development of both a corporate-wide business continuity plan and a Y2K-specific plan at the suggestion of the Chairman of the Y2K Oversight Committee.

- Reviewed telecommunications, facilities, data exchanges, and systems use from user input through final output, including communications and interfaces, and found them to be effective.

- Completed testing of five of the FDIC's mission-critical systems. Worked cooperatively with DIRM in exchange of test results. Communicated results relating to test files, documentation, and testing methodology and found that, overall, most systems reviewed by the OIG and the FDIC had a low risk of failure.

The Corporation has been receptive to the observations and suggestions that we communicated and in many instances took action that addressed any OIG concerns. We are committed to continuing to work with the Corporation in the weeks ahead to help ensure a successful "rollover" to the Year 2000. Some OIG staff will be on location at FDIC sites to observe activities during the weekend of December 31 and will be available to do audit work or assist with problem solving, should the need arise.

In our next semiannual report we will feature a retrospective look at all of our Y2K audit efforts.

Other Risks Require Vigilance

The Corporation cannot limit its attention to Y2K matters—it must remain alert to emerging risks and adapt to a rapidly changing financial services marketplace. In terms of size, complexity, and sensitivity to the global economy, banks have undergone tremendous changes. The Chairman has urged the employees of the FDIC to find better ways to understand increasingly large, complex institutions; the businesses they conduct; and the risks they pose. In light of impending risks or problems, two questions need to be considered: (1) How would the Corporation deal with a "megabank" that is in trouble or fails? and (2) What expanded bank activities should be covered by the FDIC's "safety net"?

The issue of megabanks is a significant one. In recent years, major banks have been rapidly developing into enormous and complex financial conglomerates. The total value of bank mergers in 1998 alone, $233 billion, exceeded the combined total from the previous 6 years. Because the industry has undergone such widespread consolidation, 39 institutions control one-half of the country's banking assets, almost $4.5 trillion. The trend toward consolidation continues in dramatic fashion and will continue to place increasing risks on the deposit insurance funds. As of March 31, 1999, there were 39 megabanks in the country-that is, 39 banks with $25 billion or more in total assets.

Of particular note, during the reporting period (on September 1, 1999), the Office of the Comptroller of the Currency closed the First National Bank of Keystone, Keystone, West Virginia. Keystone was a $1.1 billion institution closed after evidence of apparent fraud was found that resulted in the depletion of the bank's capital. The FDIC was named receiver and the resulting loss to the insurance fund is estimated to be between $750 million and $850 million as of September 30, 1999. Failure of a megabank would take an even higher toll on the insurance funds.

Banking activities related to cyberbanking, electronic cash, and other highly technical financial delivery systems also pose increasing risks to the safety and soundness of the banking industry and, consequently, the deposit insurance funds. Additionally, personal bankruptcies, syndicated lending, international investments, subprime lending, and credit card lending are areas where adverse trends could cause losses to the FDIC and banking industry. The Corporation must guard against these risks and continue to ensure that consumers have fair and equal access to financial services. Protecting customers' privacy in a rapidly growing information marketplace is also an issue of concern.

Another key consideration for the FDIC as insurer is to ensure that the risk-based premium system avoids an excess build-up of risk. The Chairman has urged FDIC staff to make sure the premium system reflects what the risk-focused supervisory process indicates. The Corporation has a risk-based premium system initiative underway that is targeted at risky banking practices. The Corporation has been working with other regulators to develop ways to identify institutions with atypically high risk profiles in the best-rated category of the risk-based premium matrix—that is, those that are not currently paying deposit insurance premiums. Characteristics such as rapid growth, high lending concentrations, and high yielding assets would be identified. Under the initiative, if concerns related to these practices are not addressed, a bank would be reclassified and expected to pay premiums.

In addition to ongoing consolidation within the banking industry, legislation currently pending before the Congress would allow under certain circumstances the affiliations between and among commercial banks, insurance companies, and securities firms and other financial services providers. If enacted, the legislation will provide a framework for significant restructuring within the financial industry generally, and will open many new business activities to the banking industry in particular. Such restructuring would pose additional, significant challenges to bank regulators and could create new and very different risks to the deposit insurance funds.

OIG Work Addresses Emerging Risks

The OIG is conducting three ongoing reviews to address some of the most significant risks facing the Corporation and the banking industry, as described above. The following narrative presents a brief summary of the background and nature of these reviews. Results of this work will be contained in the next semi-annual report.

- **Megabanks and Backup Authority:** Of the $4.5 trillion in assets controlled by the 39 largest institutions, the FDIC is the primary federal regulator for only $77 billion in two of these institutions as of March 31, 1999. Consolidation in the banking industry may present increased risks for the FDIC as the deposit insurer because the deposit insurance funds face larger potential losses from the failure of a single, large consolidated institution. Since the Corporation does not have a presence in the other 37 institutions, it is heavily dependent on the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision to provide the FDIC with the information needed to monitor the insurance risks associated with the megabanks. We are conducting a review of DOS's efforts to monitor risk at institutions for which the FDIC is not the primary federal regulator. Our review is focusing on the backup examination process for insured thrifts, national banks, and state member banks and DOS's efforts to monitor the risks associated with the megabanks. Our goal is to help minimize the negative impacts on the deposit insurance funds in the event one of these institutions encounters problems or fails.

Update to BestBank Material Loss Review

In our previous semiannual report, we reported that the FDIC Division of Supervision's (DOS) oversight of **BestBank** was hampered by the examiners' restricted access to BestBank's third-party servicer and by restricted access to bank employees and records. As a result of our recommendations, the FDIC's General Counsel opined that, by statute, the FDIC has the authority to obtain records of unaffiliated service providers and other counterparties. DOS developed clarifying guidance in its *Manual of Examination Policies* regarding the FDIC's examination and investigation authority of third party servicers. Also, DOS updated its manual to reinforce the provisions of Section 10 of the FDI Act regarding the empowerment of examiners to make a thorough examination of all affairs of the bank. In addition, the manual was revised to require that DOS document significant examination obstacles and the regional offices' resolution of these situations.

As part of our overall assessment of the FDIC's supervision of **BestBank**, we identified specific instances where DOS could strengthen communication and coordination within the Corporation. As a result of our recommendations regarding these issues, DOS has revised its manual to reiterate the importance of investigating allegations of wrongdoing that may be received about an institution and reporting the allegations to the appropriate offices. In addition, an agreement between the OIG, DOS, and the Legal Division was reached regarding the coordination of open financial institution investigative activities.

- **Internet Banking:** The banking industry is rapidly expanding into the area of Internet banking. These banks are also assisting other corporations and businesses in initiating transactions over the Internet. Growth in Internet banking can be attributed in part to the low product or distribution costs characteristic of the Internet. Decreased costs allow participating banks the opportunity to offer improved services at lower costs to the consumer. However, the principal benefits of Internet banking—its global reach and open architecture—present significant security and other risks. We are nearing completion of a survey to examine the effectiveness of the electronic banking examination procedures that the FDIC has in place to address evolving areas of electronic banking, and our particular focus is on Internet banking.

- **DOS's Risk-Focused Examination Process:** We are conducting a follow-up review of DOS's risk-focused examination process. Since 1997, the FDIC has used a risk-focused examination approach. Rather than following a standard examination program requiring the review of a large sample of loans, this approach requires the examiner to first identify and test controls within a bank and then modify sample selections accordingly. This targeted examination approach should focus examination resources on the greatest areas of risk in a bank, thus increasing effectiveness without requiring additional time. The OIG first audited the process in 1998 and made recommendations for improvements to management. Our follow-up audit will determine whether corrective actions have been implemented and the process is working as intended by management.

Supervising Insured Institutions and Protecting Consumer Interests

The FDIC is the primary federal regulator for approximately 5,800 financial institutions that have assets totaling nearly $1.3 trillion. In addition, the FDIC provides supervisory oversight, although not as the primary regulator, for about 4,500 financial institutions with total assets over $5.3 trillion. Although a steady decline in the number of insured institutions is projected over the next 5 years, total assets are projected to increase. The challenge to the Corporation is to ensure that its system of supervisory controls will identify and effectively address financial institution activities that are unsafe, unsound, illegal, or improper before the activities become a drain on the deposit insurance funds.

In accordance with statutory requirements and corporate policy, DOS projects starting almost 2,800 safety and soundness examinations in 2000. DOS also provides off-site analysis for all insured institutions, including those for which it is not the primary federal regulator. This analysis includes reviewing Office of the Comptroller of the Currency, Office of Thrift Supervision, and Federal Reserve Board examinations and Securities and Exchange Commission filings. DOS also processes applications for numerous bank activities such as new bank proposals, mergers, and change of control requests. Furthermore, DOS initiates formal enforcement actions and informal corrective programs as a result of its examinations.

Protecting Consumers' Rights

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

Banking laws related to CRA and consumer protections have changed some. The environment in which financial institutions operate is evolving rapidly,particularly with the acceleration of interstate banking, new banking products, electronic banking, and the increase in consumer bankruptcy rates. Further, due to the public interest aspect of consumer protections and potential consumer exposures, the FDIC has a strong incentive for the early detection and correction of problems in institutions, promoting compliance with consumer protection laws and regulations, and increasing public understanding of and confidence in the deposit insurance system. The Division of Compliance and Consumer Affairs (DCA) projects conducting over 2,100 compliance and CRA examinations in 2000, decreasing to approximately 1,900 examinations per year over the next 4 years. DCA functions also include responding to consumer complaints and inquiries. The volume of these complaints and inquiries is expected to decrease from 175,000 in 2000 to a range of 140,000 to 160,000 within the next 4 years.

OIG Reviews DOS/DCA Examination Activities

Integral to the Corporation's success is an examination program that identifies problems before they impact deposit insurance funds, result in non-compliance with consumer protection and fair lending laws, or affect performance under the CRA.

During the reporting period, the OIG focused efforts on key activities related to the Corporation's examination responsibilities. One of our reviews examined the Corporation's obligation to conduct full-scope safety and soundness examinations of all insured depository institutions or to rely on state supervisory authorities to conduct such examinations. Another related review analyzed DOS's 1999 Examination Workload. A third review was done to examine DCA's ability to conduct all of the compliance and CRA examinations scheduled for calendar year 1999. Results of these reviews are summarized below.

Reliance on State Examinations
We determined that DOS has an adequate process for relying on state examinations. Each state examination report is reviewed to ensure that risks to the deposit insurance funds have been identified and that appropriate corrective measures are taken. In addition, cooperative working agreements entered into by the FDIC and state banking departments appear to have improved supervisory efficiencies and reduced regulatory burdens on the banking industry since the FDIC alternates examinations with most state banking departments. The FDIC coordinates closely with state banking departments through the use of working agreements. According to DOS regional management officials and officials at the Conference of State Bank Supervisors, the majority of these agreements work well.

We noted, however, that many of the working agreements between the FDIC and state banking departments had not been updated since they were originally signed, despite changes in examination frequency requirements, and that there are some cases where written agreements did not exist between the FDIC and a state banking department. To maintain close supervisory cooperation and to achieve optimal supervisory efficiency, we believe that the FDIC should maintain current, written agreements with all state banking departments. We made two recommendations to address these issues, and the Corporation agreed to take needed actions.

DOS's 1999 Examination Workload
Based on our review of data that DOS provided us, we believe DOS can accomplish its 1999 examination workload requirements. Assuming that there will be no major unscheduled events during 1999, we believe that DOS will be able to fulfill the FDIC Chairman's mandate that all statutory safety and soundness examinations (including 1998 delinquencies) be conducted, as well as the Y2K examinations and associated follow-up reviews.

We noted that DOS officials planned to ensure that the statutory safety and soundness examinations that are part of the FDIC's cycle for 1999, as well as the FDIC's 1998 delinquencies, would be conducted. However, DOS could not ensure that the state banking agencies' share of the statutory examination workload would be conducted.

Also, DOS does not have a system that provides DOS headquarters with current information pertaining to the number of statutory examinations required for each calendar year or a means to monitor the status of those required examinations. While DOS does produce a quarterly examination delinquency report based on information collected manually from each regional office, this report could provide more complete information on DOS's progress in meeting annual performance goals for safety and soundness examinations. DOS agreed to implement the OIG's recommendations to address these concerns.

DCA's 1999 Examination Workload
Based on our review of DCA's 1999 estimated workload, we believe DCA can accomplish its 1999 examination workload requirements. Assuming that there will be no major unscheduled events during 1999, we believe that DCA will be able to fulfill the FDIC Chairman's mandate that all 1999 scheduled compliance and CRA examinations and visitations, including 1998 delinquencies, be conducted as of this year's end.

During this review we also observed 103 instances for 1998 and 130 instances for the first quarter of 1999 in which CRA examinations were not included in the appropriate advance quarterly examination schedule, which is used to provide written public notification as required by the CRA regulation. As a result, the FDIC has not afforded community groups the opportunity to provide timely comments on each of these banks' performance. We made recommendations to address this concern, and corporate officials agreed to take corrective action.

The OIG will continue to monitor both DOS's and DCA's progress in meeting workload objectives for the remainder of 1999. The OIG is also conducting a review to evaluate the adequacy and reliability of the information systems and data supporting the FDIC's performance reporting of compliance and CRA examinations and community affairs and outreach activities. (See **Establishing Goals and Measuring Results** discussed later in the Major Issues section.)

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Maximizing Returns from Failed Institutions

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

As of January 1, 1999, the FDIC held assets for liquidation that totaled $2.4 billion (rounded) in book value. DRR noted in its mid-year 1999 activity report that during the 6-month period ending June 30, 1999, total receivership assets managed by the Corporation declined from $2.4 billion to $1.6 billion (rounded), a reduction of approximately 35 percent. Although the current and projected asset workload is far below the $165 billion held by the FDIC and Resolution Trust Corporation (RTC) in 1992, effectively managing assets to ensure their timely, efficient resolution at the least cost to the insurance fund remains one of the FDIC's priorities.

OIG Work Results in Questioned Costs and Joint Investigative Cases That May Recover Millions of Dollars

During this reporting period, the OIG performed work in several areas that may yield substantial recoveries. These areas include abandoned assets, securitizations and equity partnerships, and pursuing criminal activity related to collecting debts owed to the FDIC.

$3.3 Million in Abandoned Assets Held by States' Unclaimed Property Agencies

The OIG identified 3,945 accounts totaling about $3.3 million belonging to the FDIC or its receiverships that were being held by California and Florida's unclaimed property agencies. We also identified 33 other accounts being held by those two states consisting of securities, contents of safe deposit boxes, or unidentified assets. In addition, out of 24 states (other than California and Florida) that we reviewed, 23 of them were also holding assets belonging to the FDIC or its receiverships. We recommended that the Corporation recover the identified $3.3 million in California and Florida as well as identify and recover FDIC assets held by other states' unclaimed property agencies. The Corporation also needs to clarify roles and responsibilities among its pertinent divisions under the FDIC's finders fee program.

Guarding the FDIC's Stake in Securitizations and Equity Partnerships

The OIG's aim is to help ensure that the FDIC's interests in securitizations and equity partnerships are adequately protected and that the related entities are performing appropriately under the various agreements.

The FDIC inherited a total of 72 securitization transactions with an initial total reserve fund balance of $7.8 billion from the RTC at its sunset date. As of September 25, 1999, the FDIC reported that 44 active securitizations (down from 54 as of March 25, 1999, a decrease of 18 percent) with a reserve fund balance of $2.3 billion (down 30 percent from $3.3 billion as of March 25, 1999) remained in its inventory. A securitization involves selling securities that are primarily collateralized by various types of real estate loans to investors. In an effort to rapidly sell large amounts of loans to obtain the greatest financial benefit, receivership loans are pooled together as collateral to back securities sold to investors in the secondary market. This process results in mortgage-backed securities, or pass-through certificates.

The FDIC assumed 42 equity partnerships (which does not include the Judgments, Deficiencies, and Charge- offs Program) with assets having an original book value of $9 billion from the RTC. As of May 31, 1999, the FDIC reported that 36 equity partnership agreements with assets having a book value of $587 million remained in its inventory. Underlying assets include sub- and non-performing mortgage loans and owned real estate. The Corporation has a limited ownership interest in the equity partnerships, which are set up so that the private-sector party that holds the general ownership interest is responsible for disposing of the assets. During the current reporting period we completed four audits that focused on the roles, responsibilities, and effectiveness of servicers, trustees, and the FDIC in certain securitizations and an equity partnership. These audits resulted in questioned costs of $1.9 million.

Future audits will further review the abandoned assets issue discussed above and other issues relating to the period of the RTC/FDIC merger to determine which items may have been overlooked at that time and remain unresolved. As more fully discussed later in this report, in keeping with the spirit of the Government Performance and Results Act, OIG work is also intended to aid DRR in accomplishing its goals regarding strengthening its oversight of securitization transactions as well as policies and procedures for processing receivership claims, as outlined in its strategic plan.

OIG's Office of Investigations Increases Efforts to Pursue Criminal Activity Related to Collecting Debts Owed to the FDIC

The OIG has increased its efforts to work with DRR by investigating criminal activity involving court-ordered restitution and other debts that are owed to the FDIC as a result of the takeover of failed banks and thrifts. As noted in previous semiannual reports, the court-ordered restitution, originally estimated at $1.2 billion, is the result of criminal convictions stemming from schemes to defraud federally insured institutions that have resulted in losses to the FDIC. As of September 30, 1999, a total of $1.1 billion is due as a result of outstanding criminal restitution orders.

Additionally, the FDIC is continuing to attempt to collect debts it is owed as a result of loans originated by financial institutions prior to their failure. The OIG's investigative work in these cases is based on indications that the debtors may have made false statements concerning their assets or their ability to pay. Some of these cases involve elaborate schemes to conceal assets, including illegal transfers to others. They also involve, in some instances, the filing of fraudulent bankruptcies to avoid payment. The OIG's participation in pursuing the criminal aspects of these matters offers investigative techniques not otherwise available to DRR, such as the serving of subpoenas, surveillance, the execution of search warrants, and interviewing of various subjects.

In an effort to enhance coordination with DRR and other FDIC divisions and offices, the OIG's Office of Investigations designated a senior staff member to serve in a newly created position as Program Manager to act as the liaison with DRR in June 1999. During the current reporting period, the new Program Manager spearheaded an initiative to strengthen OIG/DRR cooperation. Meetings were held with DRR management in Hartford, Connecticut, and Dallas, Texas, and procedures were established for regular exchanges of data with DRR headquarters management. Although the results of these new efforts are not yet fully realized, the OIG and DRR have already seen positive results. Since June 1999, the OIG has opened seven new cases that are being coordinated with DRR and involve a total of almost $10 million in outstanding restitution orders or other types of debt.

Managing Information Technology

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

The Strategic Plan contains six key goals in the IT area: Improve Customer Satisfaction with Application Systems; Reduce Corporate Costs Through the Use of Technology; Manage Information for the Corporation; Provide an IT Infrastructure That Works Everywhere, All the Time; Improve the Efficiency and Effectiveness of IT Management; and Fix the Year 2000 Problem. Accomplishing these goals efficiently and effectively requires significant expenditures of funds and wise decision-making and oversight on the part of FDIC managers.

OIG's Information Technology Work

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

Personnel Action Processing Controls and Security

We completed an audit of controls and security over personnel action processing, an activity that includes the management of comprehensive data files on individual employees. These data originate from numerous events that an individual experiences during his/her employment with the federal government, such as organizational changes and changes in pay and benefits. An employee's record may include over 100 data elements, and the integrity of this data must be preserved over the employee's federal government career.

We concluded that although the Division of Administration (DOA) had developed and implemented a number of processes to enhance data integrity, improvements could be made in documenting and reviewing certain types of personnel actions. We also concluded that DOA needed additional procedures, processes, and controls to more fully protect the personnel database files from inappropriate changes. Additionally, DIRM and DOA need to improve access controls for the related processing systems to better prevent unauthorized access to sensitive data and to enhance controls through separation of incompatible duties.

As a result of the audit, the OIG recommended that the Director, DOA, develop certain control procedures, more closely limit who can access personnel-related information systems, and limit the available system options. Other issues regarding the Personnel Action Request System's system—level security were communicated to DIRM during the audit. DIRM took action to address those issues prior to issuance of the draft audit report. The Corporation's responses and a subsequent meeting with DOA personnel provided us with the requisite elements of a management decision for all recommendations.

OIG Reviews DIRM Service Contract Activities

The Corporation's IT program activities include the development, operation, enhancement, and maintenance of the FDIC's automated information systems. Effective and efficient acquisition of IT resources is critical to the success of the FDIC's IT program. DIRM has the authority and responsibility for coordinating the acquisition of IT resources and for the oversight of IT-related contracts. These resources include Personal Computer/Local Area Network equipment, packaged software and maintenance, data center management, development of new application systems, maintenance of existing application systems, and the FDIC's technical infrastructure.

Between January 1, 1996 and December 31, 1998, the FDIC paid over $283 million to DIRM service contractors. This figure is exclusive of payments related to the acquisition of IT goods, including hardware and commercial off-the-shelf software products. Expenditures to DIRM service contractors were $74 million in 1996, $90 million in 1997, and over $118 million in 1998.

We have provided input to the Corporation on IT matters in a number of ways other than through the issuance of formal reports. Among IT-related services we provided are the following:

- Communicated with DIRM regarding several information security issues, which include providing views on DIRM's process to ensure that changing contractor passwords are secure and suggesting improvements to ensure secure storage of sensitive DOS data in a field office.
- Provided input on the pilot Bid Information System based on a review of the Application Security Plan. As part of this effort, we worked with DRR personnel and DIRM's security group on establishing guidelines for the security of an Internet Web site that DRR wanted to use to provide due diligence information to contractors wanting to bid on DRR contracts.

- Addressed System Development Life Cycle (SDLC) issues that included providing suggestions to DOA on improvements that could be made to the FDIC's SDLC Manual and issuing a memorandum on the need to improve the process for updating the cost benefit analysis for the Electronic Travel Voucher Processing System.

During the reporting period, we completed an audit of the award and administration of DIRM service contracts. Our review focused on DIRM service contracts because of the increasingly significant investment that the FDIC has made in the use of these resources over the past several years. Management's actions in response to our report will strengthen controls over the contracts.

At the time of our review, 291 DIRM service contracts were open at headquarters. The 19 contracts selected for our audit totaled $96.2 million and represented approximately 31 percent of the $314.2 million in headquarters DIRM service contracts that were listed as open as of July 14, 1998.

Our audit identified opportunities for the FDIC to strengthen controls to help ensure that DIRM service contract requirements are satisfied in a cost-effective manner. Contract statements of work should more fully define or provide details on the tasks, requirements, and deliverables expected of the successful offerors. Additionally, task assignments after award could be used more effectively to describe the services required, deliverables, costs, and delivery dates. Better specifying the Corporation's contracting needs would serve to lessen the FDIC's reliance on contractors to define contract requirements and deliverables through project work plans that they produce after the contract is awarded. Other added cost controls would be for DOA to clarify its existing policy related to contract modifications that increase the value and scope of contracts after award and develop the ability to monitor expenditure authority through the FDIC's Purchase Order System when the value of contracts varies from limits established in the Acquisition Policy Manual. The Corporation also needs to better ensure that contracts are properly classified and closed out timely and background investigation checks are performed on DIRM contractors.

The Corporation executed the 19 contracts in our sample in accordance with the policies and procedures contained in the Acquisition Policy Manual and, in the case of large, complex IT Multiple Award Schedule contracts, even went beyond the procurement policies and procedures that other federal agencies are required to follow. However, to improve competition for acquiring large service contracts, we reported that it would be in the Corporation's best interest to take existing controls a step further. We recommended ways to increase the numbers of bidders solicited; involve a source selection official; expand membership on technical evaluation panels; establish more reasonable timeframes for the submission of bids; and seek alternative methods of encouraging minority and women-owned business participation. Taken together, these actions should improve competition and will better provide the control of segregation of responsibilities between the Office of Contracts and the program office during key phases of contract award and administration.

With respect to controls over contractor billings, our review of a selected invoice for each of the 19 contracts in our sample showed that invoices were properly supported and were within the scope of the contract.

OIG Addresses Task Assignment Issue

In two recent audits, issues were raised with respect to contracting through the use of task assignments. As a contracting vehicle, task assignments are used when it is desirable for an FDIC contract oversight manager to have discretion in choosing the timing and scope of deliverables under a contract. While contracts are awarded by contracting officers through formal acquisition channels, task assignments are issued by oversight managers. Under these procedures, the FDIC contracting officer may not be able to maintain the requisite control over the contract as envisioned in the FDIC's *Acquisition Policy Manual*. Discussions between the OIG and the Corporation on these issues have resulted in an agreement to revise the *Acquisition Policy Manual* to better define the appropriate uses of task assignments.

Ensuring Sound Controls and Oversight of Contracting Activities

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

Contractors assist the FDIC in many areas, including legal matters, property management, loan servicing, asset management, information technology, and financial services. Projections of year 2000 non-legal contract awards and purchases total 4,100 actions valued at approximately $260 million. As discussed in the previous section of this report, one of the most active areas of contracting in the Corporation regards information technology. As of September 30, 1999, there were more than 300 active information resources management contracts valued at approximately $350 million that had been awarded in headquarters. Approximately $65 million of this expenditure authority for active contracts had been spent and $285 million remained to be used. Also, the FDIC's Legal Division projects that almost $37 million will be paid to outside law firms in 1999 and approximately $28 million is budgeted for the year 2000.

The OIG continues to focus resources on auditing contracts and agreements. In this reporting period, the OIG audited contracts related to environmental testing, bulk sales evaluation services, and legal billing. (See also **DIRM Service Contracts** issues discussed previously.)

Audits of Kenneth Leventhal's Billings Result in Nearly $4 Million in Questioned Costs

We audited billings for two Kenneth Leventhal due diligence contracts this reporting period, which resulted in questioned costs of almost $4 million for charges that were either not in accordance with the terms of the contract or adequately supported. Over the past 2 years, the OIG has performed four audits of Kenneth Leventhal billings under five separate securitization contracts. For these five, we audited a total of about $23 million and questioned over $10 million, or approximately 44 percent. The majority of the questioned costs were due to billings for additional hourly labor fees for unauthorized tasks and required tasks covered by the not-to-exceed caps per loan.

OIG Reviews Remaining Legal Fee Bills

We have conducted many audits of legal fee bills that were submitted by firms doing business for both the RTC and FDIC. These audits are done to ensure that firms adhere to the legal services agreements' billing requirements and that the FDIC pays only for allowed and supported fees and expenses. We have worked closely with the Legal Division throughout this effort.

As of September 30, 1999, the RTC and FDIC OIGs have issued a total of more than 300 legal fee bill audit reports with questioned costs totaling almost $38 million. Risks to the FDIC remain even though the number of contracts in this area has declined. We issued seven reports on legal fee bill audits and questioned a total of $253,560 during the current reporting period. Management agreed to disallow $79,648 (31 percent) of that amount.

With the issuance of these last seven reports, the OIG's concentrated effort to audit outside counsel legal fees for resolving the RTC and FDIC receiverships of the early 1990s is complete. According to the FDIC's Legal Division, the FDIC received total recoveries of $10.7 million from 1991 through September 30, 1999 from both RTC and FDIC legal fee bill audit reports.

Operating Effectively in a Changing Environment

Since 1994, as the work emanating from the banking and thrift crises has declined and continued consolidation of the financial services industry has occurred, the FDIC has accordingly reduced its workforce substantially. The workforce has fallen from a high of about 15,600 in mid-1993 to 7,326 as of September 25, 1999. In addition to reductions in the size of the workforce, as the Corporation's needs have changed, employees have been relocated to best serve those changing needs. The FDIC relocated a total of 1,779 employees during the period of 1996 through 1998.

At the same time, the FDIC has addressed staffing shortages in certain critical skill areas owing to the loss of such a high number of staff and strict prohibitions on hiring from 1992 through 1997. Additionally, through the use of employee buyouts, early retirements, and other downsizing activities, the Corporation has lost a number of highly experienced managers and senior technical experts. The Corporation predicts that approximately one of every six remaining FDIC employees will be eligible to retire in the next 5 years. This number includes a disproportionate number of senior managers and professionals in most divisions and offices. The Corporation needs to conserve and replenish the institutional knowledge and expertise that has guided the organization until now.

The Corporation continues to experience organizational change at the highest levels. On May 18, 1999, Chairman Tanoue announced appointments to the following corporate positions: Chief Financial Officer; Directors of DOA, DCA, the Division of Finance, and the Office of Diversity and Economic Opportunity. More recently, the Corporation's Chief Operating Officer left the FDIC and the Director of DRR was named as his successor. DRR is now operating under the direction of an Acting Director.

These new appointments serve to provide more stability in senior management. Still, given the downsizing, relocations, and organizational changes and corresponding new leadership, the Corporation's senior management team will continue to confront challenges in performing the corporate mission and responding to any emerging problems in the financial services industry.

The Corporation has included as a 1999 corporate annual performance goal developing a strategy to ensure that a new generation of managers and senior professionals will assume leadership positions in the FDIC. Additionally, the Corporation's Diversity Strategic Plan is designed to directly address the challenge of "institutional knowledge and expertise," as discussed in the following pages.

working together to be the best

The FDIC's Diverse Workforce

The Corporation continues to address the organizational challenge of diversity. It established the following corporate definition of diversity:

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

The Board of Directors approved the Corporation's first Diversity Strategic Plan on May 25, 1999. As stated in the Chairman's July 16,1999 letter included in the plan, "For the Corporation to continue to be successful, we must retain and recruit the most qualified and most motivated employees we can." The goals in the plan address this challenge and reinforce the commitment to diversity.

The Corporation has also undertaken a number of other actions to promote diversity, including the creation of a diversity Web site, comprehensive training for every FDIC employee, and dissemination of promotional literature and posters that capture the spirit of the FDIC's diversity motto, **"Working Together To Be the Best."**

The diversity plan serves as the long-term blueprint for the implementation of diversity initiatives. The Corporation must continue to monitor its progress in implementing the plan and work to ensure that it cultivates an environment that adheres to its corporate definition of diversity.

The OIG's intern program brings new talent to the office.
Seated l-r: C. Pollard, T. Garner, N. Wilson, S. Watson
Standing l-r: Coordinator, D. Wheatley-Walker, J. Tillery, N. Cross, D. Toxie, J. Brennan, A. Milne, Co-coordinator, J. Hoyle
Missing from photo: C. Veasey, M. Sebestyen

OIG Reviews Focus on FDIC's Changing Environment

The OIG is committed to conducting work that is relevant to the ever-changing work environment at the FDIC. Several of our reviews during the reporting period attest to our goal of enhancing corporate operations and seeking cost-saving opportunities for the FDIC.

FDIC's Relocation Program

The OIG initiated an evaluation of the FDIC's Relocation Program, which is administered by the Division of Finance (DOF), at the suggestion of the Chief Operating Officer. Our review showed that the FDIC's relocation benefits were generally comparable to those of other Financial Institutions Reform, Recovery and Enforcement Act agencies, the Federal Reserve Board, and the Federal Travel Regulation. With respect to two benefits, temporary living expenses and the Miscellaneous Expense Allowance (MEA), the FDIC's policy is significantly more generous. We estimated that the FDIC would have reduced 1998 relocation costs by $1.3 million to $2 million for temporary living expenses, and by $1.5 million to $1.7 million for MEAs, if its policy was consistent with the other agencies.

We suggested that DOF study the bases for temporary living expenses and MEA benefits being significantly more generous and determine whether the bases remain valid. DOF agreed and has already begun a study of the intent of the temporary living expenses and the MEA benefits. This preliminary work will be leading to a more complete analysis of the relocation benefits that are actually used by relocating employees and associated cost data. The FDIC will thus be able to determine whether changes should be made to current benefits and identify any monetary benefits that would result.

Additionally, we reported that a broader-based lump sum payment allowance made sense for the FDIC for several reasons, including: (1) the lump sum payment approach has been overwhelmingly endorsed by most organizations that have implemented such programs, (2) the employees at such organizations are satisfied with the approach, and (3) there is the potential for reduced costs and administrative requirements. With regard to reduced costs, we estimated potential administrative cost savings of about $400,000 per year based on a reduction of the vouchers requiring processing. We suggested that DOF consider implementing a lump sum payment program that expands beyond what the FDIC's current lump sum relocation allowance is intended to cover.

As a result of our suggestion, DOF is evaluating policy options for a Lump Sum Program. To evaluate those options, DOF initiated a project to record detailed information about the benefits paid for the past 2 years. At DOF's request, we are verifying the accuracy of that data to ensure that it provides a valid basis for making decisions and to provide assurance that the data being used to propose relocation benefit options is credible.

OIG and DOA Address FDIC Copier Administration Program

As work responsibilities, staffing, and workloads change, it is good business practice for an organization to reexamine the use of its resources such as computers, printers, phones, copiers, and facsimile machines to ensure that funds for such equipment are wisely spent. During the reporting period, the OIG and DOA partnered to make significant changes to the Corporation's copier administration program. These changes could ultimately result in $9 million in savings for the Corporation and will also enhance management controls over the program. Copiers are an important tool that every FDIC employee needs to carry out corporate operations and activities. As a result of the combined efforts of these offices, every employee in headquarters and in the Dallas and San Francisco regional offices will be provided enhanced copier services that will allow them to do their work more efficiently and effectively.

DOA staff had previously reviewed headquarters copier usage and determined that many copiers were being underutilized. As a result, DOA's Acquisition and Corporate Services Branch (ACSB) reduced the Corporation's copier inventory. ACSB also asked the OIG to conduct a more in-depth analysis and make recommendations to improve the cost efficiency of the program.

The OIG's analysis showed that FDIC convenience copiers, production copiers, and color copiers were significantly underutilized, the FDIC was paying too much for copiers on a per copy basis, and other lease and ownership and staffing alternatives existed that could potentially save the FDIC millions of dollars. The OIG has issued a series of reports detailing the results of its analysis.

DOA agreed with the conclusions of the OIG reports and has moved promptly to use this information to plan and implement a more economical and effectively managed copier service program while sustaining an acceptable level of service. As a result of the information and recommendations received from the OIG, DOA began implementing program changes concurrent with the review. Some of the more significant changes involve

- Adding staff with copier experience and management analysis to oversee the daily operation of the copier program;

- Working to more consistently collect and track information on copier usage and consolidating the administrative records of equipment tracking, fees, and service calls for better oversight;
- Developing a Rightsizing Plan for all headquarters copiers to better align the types and placement of copier equipment to copying demand;
- Engaging the Department of Treasury's Franchise Business Activity Group under an interagency agreement to evaluate copier capacity requirements for all FDIC headquarters offices and to provide the copier equipment for those offices; and
- Working with regional office staff to achieve additional savings based on contract alternatives provided by the OIG.

DOA and the OIG worked cooperatively to improve corporate operations. DOA surfaced an issue and took the initiative to ask the OIG for assistance. The two divisions arrived at mutually agreeable solutions in a timely fashion and are working together to implement actions that will ultimately save the Corporation millions of dollars and improve the quality and controls of the copier program.

OIG Addresses Diversity Through Internal Study

As reported in our last semiannual report, our office undertook a study of diversity in the OIG for submission to the House Subcommittee on Veterans' Affairs, Housing and Urban Development, and Independent Agencies, Committee on Appropriations. We initiated this study in response to language contained in the Subcommittee's report on the fiscal year 1999 appropriation. We submitted our report on June 9, 1999 and shared it with OIG staff at that time. (For additional information on this study, please see the OIG Organization section of this semiannual report.)

Establishing Goals and Measuring Results

The Government Performance and Results Act (Results Act) of 1993 was enacted to improve the efficiency, effectiveness, and accountability of federal programs by establishing a system for setting goals, measuring performance, and reporting on accomplishments. Specifically, the Results Act requires most federal agencies, including the FDIC, to prepare a strategic plan that broadly defines the agencies' mission and vision, an annual performance plan that translates the vision and goals of the strategic plan into measurable objectives, and an annual performance report that compares actual results against planned goals.

The Corporation's strategic plan and annual performance plan lay out the agency's mission and vision and articulate goals and objectives for the FDIC's three major program areas: Insurance, Supervision, and Receivership Management. The plans focus on four strategic results that define desired outcomes identified for each program area. The four strategic results are: (1) Insured Depositors Are Protected from Loss Without Recourse to Taxpayer Funding, (2) Insured Depository Institutions Are Safe and Sound, (3) Consumers' Rights Are Protected and FDIC-Supervised Institutions Invest in Their Communities, and (4) Recovery to Creditors of Receiverships Is Achieved. Through its annual performance reports, the FDIC will be accountable for reporting actual performance and achieving these strategic results, which are closely linked to the major issues discussed in this semiannual report. As required by the Results Act, the Corporation must submit its initial program performance report to the President and the Congress no later than March 31, 2000.

The Corporation has made significant progress in implementing the Results Act and will continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, and establishing processes to verify and validate reported performance data. The FDIC is committed to fulfilling both the requirements of the Results Act and congressional expectations that the plans clearly inform the Congress and the public of the performance goals for the FDIC's major programs and activities, including how the agency will accomplish its goals and measure the results. The FDIC's 2000 Annual Performance Plan is being drafted by management and will be provided to the Office of Management and Budget in November 1999.

OIG Formulates Results Act Review Plan

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

(2) verification and validation of selected data sources and information collection and accounting systems that support Results Act plans and reports. Findings and recommendations from Results Act reviews would be included in each subsequent semiannual report. The Congress attaches great importance to effective implementation of the Results Act and believes that Inspectors General have an important role to play in informing agency heads and the Congress on a wide range of issues concerning efforts to implement the Results Act.

The FDIC OIG is fully committed to taking an active role in the Corporation's implementation of the Results Act. Although the FDIC is not an agency subject to the CFO Act, we have developed the following Results Act review plan.

OIG's Results Act Review Plan
Our plan consists of three integrated strategies designed to help ensure that the Corporation satisfies the requirements of the Results Act and has systems in place to reliably measure its progress toward achieving its strategic and annual performance goals:

- **Linking Planned Reviews to the Results Act.** We will link planned reviews to corporate strategic goals and objectives and annual performance goals and provide appropriate Results Act coverage through audits and evaluations. As part of this strategy, the OIG has established specific goals in its own annual performance plan to link OIG reviews to corporate strategic goals.

- **Targeted Verification Reviews.** We will maintain a program of independent reviews to evaluate the adequacy and reliability of selected information systems and data supporting FDIC performance reports. The OIG has developed a standard work program to conduct these evaluations.

- **Advisory Comments.** We will continue our practice of providing advisory comments to the Corporation regarding their update or cyclical preparation of strategic and annual performance plans and reports.

Several examples of OIG results during the reporting period that are linked to Result Act issues and concepts follow:

- The OIG identified the need to improve controls over DRR's process for refunding amounts to reserve funds for securitization transactions. DRR established a plan to enhance controls and prevent errors. This plan should assist DRR in meeting its 1999 annual performance goals related to strengthening oversight methodologies for securitization transactions and strengthening policies and procedures for processing receivership claims.

- In our audit of DOS's 1999 examination workload, we recommended that regional offices provide periodic reports to DOS headquarters indicating the status of meeting statutory safety and soundness examination schedules, including the number of examinations due each year and the progress in starting and completing examinations due each quarter. These reports will provide management a valuable tool for measuring and monitoring progress in achieving its workload and assessing progress in meeting annual performance goals for safety and soundness examinations.

- In a survey of activities of the Kansas City Region's DCA, we identified two Results Act-related matters. The first pertained to suggesting that with respect to consumer complaints and inquiries, DCA establish goals with quantifiable, measurable targets to better assess annual achievements. A second concern related to DCA's method for measuring and reporting on its own responses to consumer complaints and inquiries.

As part of our program of targeted data verification reviews, we are currently evaluating the adequacy and reliability of the information systems and data supporting the FDIC's performance reporting of compliance and CRA examinations and community affairs and outreach activities. Our review involves (1) confirming the reported compliance and CRA examinations started, banker outreach and education activities conducted, and presentations made to and meetings held with banker and community/industry groups and (2) performing necessary work to assess the reliability of the system of record and the data supporting the reported performance results. This review will be completed and its results reported in the next semiannual period.

The OIG will also review the FDIC's 2000 Performance Plan that is currently being revised and updated as part of the annual planning cycle and will provide comments to FDIC management regarding the plan's conformance with the Results Act. We also plan to review and provide comments to FDIC management on the preparation of the Corporation's initial Annual Performance Report, covering calendar year 1999 that, under the Results Act, is due to the President and the Congress by March 31, 2000. For future annual cycles, the OIG will continue to advise management regarding the Corporation's Results Act plans and reports undergoing development or revision.

The OIG will continue to develop and refine its integrated oversight strategy so that the OIG's Results Act-related efforts fully conform to the spirit and intent of the Act. The OIG will also continue to monitor and review legislation proposed in the Congress to amend the Results Act and will actively participate through the President's Council on Integrity and Efficiency and the interagency groups it sponsors to refine appropriate OIG Results Act roles, responsibilities, and activities.

Transfer of Financial Statement Audit Work from GAO to OIG Progresses

The U.S. General Accounting Office (GAO) and the FDIC OIG continue to work toward transferring full responsibility for the FDIC annual financial statement audit to the OIG. This responsibility is shared between two OIG offices located in Washington and Dallas. The OIG Washington staff has assumed audit responsibility for cash, investments, and expenses. The OIG Dallas staff has assumed complete responsibility for auditing the methodology and process for the valuation of receivership assets, internal controls over receivership cash receipts and disbursements, and the FDIC's oversight of contractors who manage and dispose of receivership assets for the FDIC. GAO approved the audit approach and methodology for these areas that the FDIC OIG staff had planned and will rely on the OIG's work for these portions of the FDIC's financial statement audit.

In connection with the government-wide consolidated financial statement audit, the Inspectors General will again this year certify the accuracy of their agency's fiscal year financial data included in the government's consolidated financial audit. To prepare the government-wide consolidated financial statements, the U.S. Department of the Treasury receives financial data from federal agencies and enters the information in the Federal Agencies Centralized Trial Balance System (FACTS). Treasury then returns that data to the agencies for review and certification. The OIG financial statement audit team will certify the accuracy of the FACTS data submitted by the FDIC's Division of Finance on behalf of the FDIC. The Inspectors General will also submit the required "agreed-upon procedures" audit report to the Treasury and GAO by the March due date.

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

Partnership Success Story

The OIG, GAO, the Office of Internal Control Management, the Division of Finance, and other divisions successfully partnered during the audit of the Corporation's financial statements for 1998. In June 1999, FDIC received unqualified opinions on the statements from the GAO. No material weaknesses or reportable conditions were identified.

1. L. Wellons, R. Simms, A. Boateng, OIG.
2. V. Deshpande, OICM; G. Gianni, OIG; F. Selby, DOF.
3. S. Switzer, OIG; V. Deshpande, OICM; J. Franzel, GAO.

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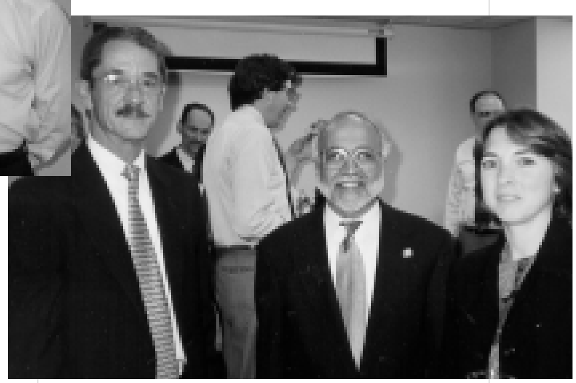

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OIG Work a Catalyst for Improvement

During this reporting period we have been made aware of the following actions by management that are related to a number of our past reviews.

Since our review of the Office of the Executive Secretary's (OES) processing of Freedom of Information Act (FOIA) requests, OES has periodically informed us of actions it has taken to improve the FOIA process. Specifically, OES has:

- Conducted two FOIA training sessions,
- Eliminated the 12-month-old category of FOIA requests and included a new section regarding the tracking of FOIA appeals in the FOIA quarterly report to the Chief Operating Officer,
- Started transmitting all FOIA requests to Divisions and Offices via electronic mail, and
- Reminded Divisions and Offices that control records needed to be completed for every FOIA request.

We initiated a review of DOS's Case Manager Program. Our objective was to identify issues that may warrant further review or management attention. DOS informed us that it has taken actions both in response to our report and based on its own initiatives to address issues raised by case managers during our review. Specifically:

- DOS has made substantial interim revisions to the reporting requirements and given regional managers the discretion to use application specialists to process applications filed by institutions to provide case managers more time to focus on risk and supervisory issues and result in more timely and succinct information being made available to management for analysis. These actions respond to our findings that (1) case managers and regional management questioned the value of the Large Insured Depository Institution reviews as they were structured at the time of our review and (2) case managers were spending a disproportionate amount of their time on applications instead of safety and soundness issues and off-site analysis.

As a result of a Hotline call regarding the disposition of a building from a failed savings and loan, we performed a review of the management and buyout of the River Ridge Branch Lease. The customer believed that the Resolution Trust Corporation (RTC) and the FDIC did not follow fair and appropriate business practices and the actions taken were based on racial bias. Our review found that the FDIC generally followed the applicable policies and procedures and that there was no documented evidence that the FDIC's actions were based on racial bias. However, we suggested that the FDIC and RTC could have handled the customer's inquiries better through improved communications. In response to our report, Division of Resolutions and Receiverships (DRR) officials informed us that they are developing a formal program to reinforce good communication and customer service practices to improve relations with the public. Specifically, DRR has:

- Developed a communications course for staff and managers;
- Held management briefings;
- Conducted training sessions that included executives; and
- Prepared and placed an External Inquiries Reference Guide on the DRR Web site to provide guidance as to how to draft responses to inquiries from Members of the Congress, the White House, and the public.

In connection with a report we issued to improve the Office of Diversity and Economic Opportunity's (ODEO) discrimination complaint program, ODEO informed us that it has:

- Successfully resolved a number of its older cases that were in the final agency decision stage,
- Begun reporting comparative elapsed-day statistics similar to how we presented information in our report,
- Generally improved the timeliness of processing cases at each stage of the discrimination process,
- Worked with the Legal Division to successfully pilot an Alternative Dispute Resolution program during the informal counseling stage, and
- Hired a new director with an extensive Equal Employment Opportunity background.

Investigations

The Office of Investigations (OI) is responsible for carrying out the investigative mission of the OIG. Staffed with agents in Washington, D.C., Atlanta, Dallas, Chicago, and San Francisco, OI conducts investigations of alleged criminal or otherwise prohibited activities impacting the FDIC and its programs. As is the case with most OIG offices, OI agents exercise full law enforcement powers as special deputy marshals, under a blanket deputation agreement with the Department of Justice. OI's main focus is in investigating criminal activity that may harm or threaten to harm the operations or the integrity of the FDIC and its programs. In pursuing these cases, our goal, in part, is to bring a halt to the fraudulent conduct under investigation, protect the FDIC and other victims from further harm, and assist the FDIC in recovery of its losses. Another consideration in dedicating resources to these cases is the need to pursue appropriate criminal penalties not only to punish the offender but to deter others from participating in similar crimes.

Joint Efforts

The OIG works closely with U.S. Attorneys' Offices throughout the country in attempting to bring to justice individuals who have defrauded the FDIC. The prosecutive skills and outstanding direction provided by Assistant U.S. Attorneys with whom we work are critical to our success. The results we are reporting for the last 6 months reflect the efforts of U.S. Attorneys' Offices in the (1) Eastern District of Pennsylvania, (2) Northern District of Texas, (3) Southern District of Florida, (4) Northern District of Illinois, (5) District of New Hampshire, and (6) Eastern District of Virginia.

Support and cooperation among other law enforcement agencies is also a key ingredient for success in the investigative community. We frequently "partner" with the FBI, the IRS, Secret Service, and other law enforcement agencies in conducting investigations of joint interest.

Results

Over the last 6 months, OI opened 42 new cases and closed 30 cases, leaving 157 cases underway at the end of the period. Our work during the period led to indictments or criminal charges against four individuals and one company. Seven defendants were convicted during the period. Criminal charges remained pending against 11 individuals as of the end of the reporting period. Fines, restitution, and recoveries stemming from our cases totaled about $12.6 million. One civil settlement was reached during the period and suits were still pending against five defendants at the end of the reporting period. Following are some of the case highlights resulting from our investigative activity during the reporting period.

Task Force Cases

As described in our previous semiannual reports, we participate actively on several task forces that have been formed to target particular types of illegal conduct and often focus on specific geographic areas. These task forces typically consist of a team of investigative, prosecutive, and other personnel. During this period, there were prosecutive actions on several of these task force investigations.

Three Men Charged with Conspiracy, Bankruptcy Fraud, and Corruptly Impeding Functions of the FDIC

The owner/operator of several Massachusetts nursing homes, an architect, and a third individual were indicted based on an investigation that was initiated by the now-defunct New England Bank Fraud Task Force and jointly conducted with the Secret Service. The three defendants were charged with conspiracy, corruptly impeding the functions of the FDIC, and bankruptcy fraud.

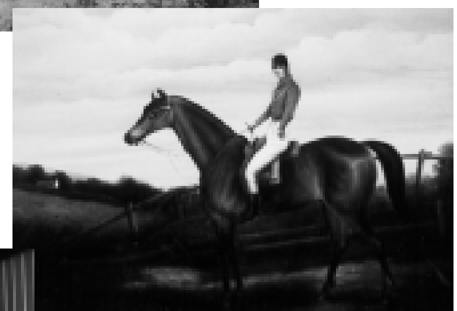
The nursing home owner/operator originally obtained an $8.1 million loan from the First Mutual Bank of Boston to develop an elderly care facility but defaulted on the loan in 1990. After the bank failed in June 1991, the FDIC was appointed as receiver and twice attempted to foreclose on and sell the property. The indictment alleges that, on both occasions, the nursing home owner/operator orchestrated a scheme for purported creditors of the project to file involuntary bankruptcy petitions against the developers based on false and inflated claims. The filing of the bankruptcies forced the FDIC to cancel the scheduled foreclosure sales of the project for over 2 years.

Complaint Filed Against Felon Who Owes the FDIC More Than $10 Million in Restitution

Our previously reported work with the Judicial Enforcement Team, a task force created by the Financial Litigation Unit of the U.S. Attorney's Office, District of Massachusetts, continued to produce results during this period. The group was formed for the purpose of pursuing hidden assets of individuals subject to court-ordered restitution. In continuation of its pursuit of a case described in our last semiannual report, the U.S. Attorney's Office for the District of Massachusetts filed a complaint in June 1999 in U.S. District Court,

Investigative Statistics

Judicial Actions:	
Arrests	**4**
Indictments/Informations	**5**
Convictions	**7**
Actions Involving FDIC Employees as a Result of Investigations:	
Reprimand	**1**
OIG Investigations Resulted in:	
Fines of	**$ 1,519,000**
Restitution of	**506,700**
Monetary Recoveries of	**10,531,041**
Total	**$ 12,556,741**
Cases Referred to the Department of Justice (U.S. Attorney)	**23**
Referrals to:	
FDIC Management	**3**
OIG Cases Conducted Jointly with Other Agencies	**49**



A felon who owed the FDIC over $10 million claimed she was indigent and had no assets. The OIG discovered this and much other valuable artwork in a storage facility she rented.

Boston, to recoup additional assets from a former Massachusetts developer. In 1995 the developer was sentenced to serve 24 months in prison and was ordered to pay the FDIC $10.9 million in restitution for defrauding the former Bank of New England. Her conviction was in part based on her use of $28 million in loan proceeds to support her extravagant lifestyle. She used loan proceeds to rent a luxury apartment at the Ritz Carlton and to buy a Ferrari, a Lincoln Continental, jewelry, and boats. Upon her release from prison, she was placed on probation but never made any restitution, claiming that she was indigent and had no assets. In 1997 the OIG was contacted by a probation official and asked to assist in evaluating the subject's ability to make restitution and assessing whether she had hidden or diverted assets.

As we reported previously, the investigation of this case resulted in the revocation of the developer's probation in November 1998. At that time she was remanded to a federal halfway house for 6 months, followed by 90 days of electronically monitored home detention. She was also ordered to immediately obtain employment and commence payment of $300 per month in restitution to the Corporation.

The most recent complaint in this case stems from the discovery during the investigation of a storage facility containing expensive artwork owned by the subject. The OIG also determined that in July 1998, 3 days after being served an OIG subpoena, the subject transferred her beneficial interest in a $444,000 life insurance policy to her daughter. The recent complaint petitions the court to (1) have the artwork seized and liquidated and (2) void the life insurance transfer, with the proceeds from both actions applied toward the restitution order. In addition, the complaint requests that the court enter a $125,000 order against the subject's husband for his role in conspiring to conceal her ownership of the artwork. The $125,000 covers the investigative costs expended by the U.S. Attorney's Office and the OIG relative to the artwork.

Counterfeit Check Investigation Results in Indictment

As a result of an ongoing investigation we are conducting with the Philadelphia Bank Fraud Task Force, a man was indicted on one count of conspiracy to commit bank fraud. As detailed in the indictment returned by a federal grand jury in Philadelphia, Pennsylvania, in April 1999, the defendant and an unidentified co-conspirator allegedly made and/or obtained counterfeit checks drawn on FDIC accounts maintained at financial institutions. Counterfeit checks were also identified for accounts of other commercial enterprises. From May 1997 through August 1998, the defendant and the co-conspirator recruited account holders and/or individuals to deposit and/or cash the fraudulent checks at either financial institutions or at check-cashing agencies, in return for a portion of the proceeds.

Contract Fraud Cases

The FDIC OIG continues to pursue investigations involving suspected fraudulent activities by individuals and entities in their contracts with the FDIC. Several of these investigations were resolved successfully during this period.

Contract Auctioneer Pleads Guilty to Embezzling Funds from the FDIC, Agrees to Make Restitution

A Florida auctioneer and his company pleaded guilty to embezzling funds from the Corporation. As part of the plea agreement, the auctioneer agreed to pay restitution of $118,130 to the FDIC. The case was

An OIG investigation led to a former private security guard pleading guilty to theft of the FDIC-owned government property seen here in his home.

investigated by the OIG and prosecuted by the U.S. Attorney's Office for the Southern District of Florida. Sentencing of the two defendants has been scheduled for later this year.

As receiver of failed FDIC-insured banks, the Corporation manages and liquidates the assets of failed banks. The Corporation contracted with the two defendants to organize and conduct numerous auctions and sales of such assets. Following these auctions and sales, the defendants were required to remit the proceeds–less certain advertising and labor costs and certain credits approved by the FDIC–to the Corporation. The defendants were also required to provide the FDIC with recapitulations that reflected, among other things, the winning bid amounts, items sold, and total proceeds. The investigation disclosed that the defendants (1) submitted fraudulent recapitulations, substantially misrepresenting and underreporting the proceeds and (2) remitted proceeds based on these fraudulent recapitulations.

Former FDIC Contractor Enters into Settlement Agreement and Pays $43,000 to Avoid Prosecution for Overbilling

A former FDIC security guard services contractor entered into a settlement agreement and paid $43,000 to avoid potential prosecution for overbilling. The case was investigated by the OIG, and the settlement agreement was negotiated by the U.S. Attorney's Office for the Eastern District of Virginia.

Pursuant to its contract with the FDIC, the company provided security guard services at the FDIC building in Arlington, Virginia, between June 1993 and March 1996. The overbilling issue involved claims submitted for supervisory guard services. Under the terms of the contract, to be considered supervisors, guards were required to have received certain supervisory guard training. The investigation revealed that documentation maintained by the company as evidence that the required training had been received was false and that the FDIC was billed at the higher supervisory guard rate for guards that had not received the training.

Other Cases

Investigation Leads to Recoveries from Parties Involved in Sale of Mortgage Subsidiary

During the current reporting period, the OIG learned that negotiated settlements totaling almost $10.5 million had been completed with several companies involved in the sale of a subsidiary of Western Savings and Loan Association, which was taken over by the Resolution Trust Corporation (RTC) in June 1989. WESAV Mortgage Corporation was sold by the RTC in 1991 to a company formed by two former officers of Western Savings and Loan Association. Working with the U.S. Attorney's Office for the District of Arizona, the OIG conducted an investigation of suspected fraudulent activities associated with this transaction. Ultimately, in March 1996, the U.S. Attorney's Office decided that the issues under investigation would be more appropriately considered in a corresponding civil suit that had been filed by the RTC based on information obtained by the OIG. The FDIC assumed the position as the plaintiff in the suit when the RTC ceased operations in December 1995. Although none of the defendants in the civil suit admitted any wrongdoing, fault, or liability, three separate negotiated settlements were reached whereby the purchaser of WESAV paid the FDIC $3.25 million; the firm that the RTC hired as its financial advisor for the sale paid the FDIC $2.38 million; and the company contracted by the RTC to broker the sale paid the FDIC $3.75 million. Additionally, a pre-suit settlement was reached with the law firm that represented the RTC in the sale whereby the FDIC received $1.1 million.

Investigation of Thefts of FDIC Property Leads to Prosecution of Former Security Guard and Revised FDIC Inventory Control Procedures

Based on an OIG investigation, a former private security guard at a building in Dallas, Texas, where FDIC offices are located was indicted and pleaded guilty to theft of government property. Our investigation, which included execution of a search warrant at the defendant's residence, found that the defendant stole property belonging to the FDIC valued at over $40,000, including computers and various articles of law enforcement equipment. Following his plea of guilty on one count of an eight-count indictment, the defendant was sentenced in the Northern District of Texas to serve 6 months imprisonment, followed by 6 months of home confinement and 3 years of supervised release. Additionally, he was ordered to pay a $3,000 fine.

As a result of this investigation, the OIG also identified weaknesses in FDIC inventory control procedures and recommended corrective changes to FDIC management. In response, local procedures dealing with control and disposal of surplus FDIC computer equipment were revised. This case was also used as the basis of a case study that the OIG prepared and presented in collaboration with the FDIC Division of Information Resources Management at the FDIC Information Security Officers nationwide conference in September 1999.

OIG Organization

During this reporting period the OIG made significant progress toward the goal of becoming a "learning organization" and also critically examined OIG workplace diversity issues. Our efforts culminated in an OIG-wide conference in which we centered our activities around a single theme: **OIG 2000—Destination: Excellence** where we focused our attention on how we could improve our communication and work together most effectively. To further enhance OIG independence, in accordance with the Inspector General Act, we also established an independent, full-service personnel unit, which became fully operational in September 1999. The Inspector General, in his role as Vice Chair of the President's Council on Integrity and Efficiency, worked to further the entire Inspector General community's success in accomplishing its mission under the Inspector General Act.

OIG 2000
DESTINATION: EXCELLENCE
FDIC • Office of Inspector General

The OIG: A Learning Organization

As a "learning organization," we have attempted to develop a greater understanding of how we can constantly improve our operations, provide all staff with greater job satisfaction, and improve communication between management and staff. The OIG is committed to continuously examining our products and services, processes and operations, and working relationships.

To begin the process of self-analysis, we first completed surveys to determine the level of satisfaction with OIG operations and communication and our diversity within the OIG. The surveys targeted: (1) OIG management perceptions of our organization's mission, role, structure, work processes, and work products; (2) internal client satisfaction; (3) external client satisfaction; and (4) diversity within the OIG. Building upon our earlier analysis of data gathered from the surveys, we identified seven issues and created specific action plans to implement the needed changes. These issues include: adding value to the Corporation, defining success and accountability, building trust, improving communication, clarifying the OIG's role, clarifying and achieving consistency in the OIG's message and actions, and increasing flexibility.

During our recent OIG-wide conference, we explored and refined action plans for each issue. Key activities focused on enhanced communication skills to help us work more effectively together. The resulting action plans link to the goals we articulated in the OIG's year 2000 performance plan. Through these efforts we have furthered initiatives to increase the quality of our work in the year 2000 and beyond.

value

trust

flexibility

OIG Learning Organization Issues

Adding Value

Success and Accountability

Building Trust

Improving Communication

Clarifying OIG Role

Consistency of OIG Message and Actions

Increasing Flexibility

OIG Office Heads (l-r):
Front row: Patricia Black, Gaston L. Gianni, Jr., James Renick
Back row: Rex Simmons, Samuel Holland, Stephen Beard, Robert McGregor, Steven Switzer

OIG's Diversity Study

The OIG embraces the FDIC Chairman's commitment to promoting and supporting an inclusive environment that provides all employees, individually and collectively, the chance to work to their full potential in the pursuit of the Corporation's mission. The FDIC Chairman championed the development of FDIC's first *Diversity Strategic Plan* which was approved by the Board of Directors in May 1999, and the Inspector General has voiced the OIG's full commitment to participate and assist in implementing all of the Corporation's diversity goals and strategies. Earlier this year the Inspector General prepared a report on OIG workplace diversity for the House Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations.

Our study of workplace diversity issues within the OIG supplements the Corporation's *Diversity Strategic Plan* and offers additional suggestions for addressing particular diversity issues inside the OIG. During the OIG-wide conference we discussed the workplace diversity issues identified by the OIG study and clarified our understanding of what is meant by diversity in the FDIC. We also explored leadership characteristics and motivational strategies to help us recognize our individual strengths and achieve both our individual and group potential. We have designated one of our managers to serve as a focal point to help guide our diversity efforts. The OIG is currently developing a diversity action plan to implement the suggestions of the OIG study. The plan includes the development of an OIG policy statement on diversity and creation of an OIG employee advisory group.

OIG Human Resources Branch

The OIG's Human Resources Branch became fully operational on September 27, 1999. Establishment of the Human Resources Branch further enhances OIG independence in accordance with the Inspector General Act. As an independent, full-service personnel office serving OIG headquarters and field staff, the branch performs functions previously performed by the FDIC's Personnel Services Branch. Although it operates independently of the corporate Personnel Services Branch, it will fully comply with laws and regulations pertaining to FDIC personnel. In line with the OIG's vision as a learning organization, our personnel staff is dedicated to customer satisfaction in serving the OIG. Since the OIG assumed authority for all personnel functions for OIG employees, OIG Counsel has also become more directly involved and will continue to be involved with litigation, adverse actions, and equal employment opportunity matters.

IG Takes Lead Role in President's Council on Integrity and Efficiency

In May 1999, the FDIC Inspector General assumed the role of Vice Chair of the President's Council on Integrity and Efficiency (PCIE). The PCIE is composed of Inspectors General appointed by the President and confirmed by the Senate and certain government ethics and law enforcement officials. The Office of Management and Budget's Deputy Director for Management serves as the PCIE Chair. The Council maintains six standing committees to manage audit, investigation, evaluation, legislation, professional development, and integrity issues and projects. The PCIE also oversees two specialized training facilities designed to meet the unique audit and investigative needs of the Inspector General community.

In an effort to work more closely with the entire Inspector General community, the PCIE organized two joint sessions over the last 6 months to involve members of the Executive Council on Integrity and Efficiency (ECIE). ECIE members include Inspectors General appointed by their respective agency head and certain government ethics and law enforcement officials. Up to two ECIE members participate on each of the six standing committees.

During this past summer, the PCIE and ECIE issued their annual report to the President highlighting results of the Inspector General community during fiscal year 1998. (See inside back cover of this semiannual report.) Last month, the Councils jointly recognized individuals from 40 federal departments, agencies, and corporations for outstanding accomplishments and contributions within the Inspector General community and the government at large.

Over the next several months, the PCIE will initiate a vigorous strategic planning process that will provide guidance and direction for both Councils into the next century. In addition to handling routine matters and responding to unanticipated issues affecting the community, the PCIE plans to direct its attention toward addressing emerging issues connected with systems security, enhancing financial management practices with an eye toward obtaining clean opinions on audited agency financial statements, continuing to foster Government Performance and Results Act principles, bringing to successful completion the community's intensive Year 2000 activities, and identifying such wrongdoing as benefits and contract fraud.

OIG Internal Activities

Submitted our Report on OIG Workplace Diversity to the House Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations.

Held first OIG-wide conference, OIG 2000—Destination: Excellence, that focused on the OIG's continuing efforts to improve our processes and develop more effective working relationships.

Prepared the OIG's Annual Performance Plan for 2000.

Developed and implemented a new format for reporting OIG quarterly performance results against annual performance goals.

As an off-shoot of our learning organization initiative, identified seven issues from previously completed customer satisfaction surveys and other internal views and created action plans for each OIG component to address these issues. As an example of these actions, we developed a mechanism to gain feedback related to our processes and products from the auditee and evaluatee during OIG audits and evaluations.

Established an independent, full-service Human Resources Branch.

Issued policy on the OIG's release of reports to the public and the Congress.

Sponsored 11 summer interns in the OIG's Office of Audits, Office of Management and Policy, and Counsel's office.

Participated in interagency Government Performance and Results Act interest groups sponsored by the President's Council on Integrity and Efficiency and the U.S. Office of Personnel Management to share ideas and best practices on Results Act implementation.

Developed an OIG plan for the Y2K "rollover" weekend that provides for monitoring OIG computer systems, facsimiles, and other equipment.

Developed a secure automated information system to track OIG investigations and continued developing a new information system for audits and evaluations.

Several OIG projects were honored at the annual award ceremony of the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. Work cited included: *Joint Review of the Federal Financial Institutions Examination Council's Training Program*; FDIC's internal and regulatory efforts to address Y2K concerns; *Material Loss Review of the Failure of BestBank, Boulder, Colorado*; and Federal Audit Executive Council's Financial Statement Audit Network team.

Inspector General serves as member of the U.S. General Accounting Office's Yellow Book Advisory Board.

The OIG Counsel's office represented the office in 14 lawsuits, including defense of a whistleblower action, several *qui tam* actions, and a discrimination case. (A *qui tam* suit is a civil action brought by a private party under the False Claims Act, which the government may elect to join as a complainant. If the government proves the case, the party initiating the suit may be entitled to share in any resulting monetary recoveries.)

OIG Coordination **with** **and** Assistance **to** FDIC Management

- Briefed the Chairman of the Y2K Oversight Committee, the Director of Division of Information Resources Management, and the Acting Director of the Division of Administration on the status of the development of the FDIC's first overall Business Continuity and Contingency Plan and provided suggestions to improve the process.

- Worked with the Division of Administration to review the Corporation's copier administration program. Results of the review could save the Corporation $9 million over a 5-year period.

- Provided FDIC management with suggestions to improve the accuracy and reasonableness of individual asset recoveries in the Standard Asset Valuation Estimation (SAVE) model. The SAVE estimates are used in the least cost test and the sale of assets at resolution, when making asset management and disposition decisions, and for financial reporting.

- Participated in the Division of Supervision's (DOS) Regional Directors' Conference held in Williamsburg, Virginia, to discuss such items as the audit planning process, status of OIG work related to DOS issues, and the importance of ongoing communication. The Office of Investigations and Counsel presented interim procedures for DOS and the OIG regarding the provision of information to the OIG and making employees available to talk with the OIG regarding open bank investigative matters.

- Worked closely with DOS and the Legal Division to finalize memorandum prescribing procedures for communications between DOS and the OIG with respect to open financial institution criminal investigations.

- Furthered efforts with Division of Resolutions and Receiverships (DRR) to pursue court-ordered restitution and establish procedures for ongoing exchange of information. Since June, 7 new cases are being coordinated with DRR, involving a total of almost $10 million in outstanding restitution orders or other types of debt.

- Continued comprehensive, proactive monitoring and advisory services for all phases of the Corporation's Y2K activities-internal and external-to help ensure successful transition to Year 2000.

- Met with DOS's Memphis Regional Office to clarify both the audit process and the roles and responsibilities of OIG investigators.

- Coordinated on issuance of Chairman's Directive on *Cooperation with OIG Activities*, setting forth responsibilities of all FDIC employees, contractors, and subcontractors with regard to investigations, audits, evaluations, and other activities conducted by the OIG.

- Issued memorandums to members of the Audit Committee, FDIC Division and Office Heads, and other executives to solicit audit suggestions for our *2000 Audit Plan* to help ensure that audit activity fully addresses corporate goals and priorities.

- Provided representatives from our Offices of Audits and Investigations to speak at the FDIC's National Information Security Officer Conference. Their goal was to communicate to the audience the nature of the OIG's efforts to ensure that corporate information systems and equipment are fully safeguarded.

- Established plan for OIG presence at FDIC sites during Year 2000 "Rollover Weekend." A limited number of OIG staff will be present at FDIC sites in an observation capacity and will be available to initiate audit work and assist with problem resolution, if needed.

Table 1:
OIG Review of Proposed or Existing Regulations and Legislation
April 1, 1999 - September 30, 1999

The OIG reviewed the following regulations and legislation.

Regulations

Part 327	**Notice of Proposed Rule Making on Assessments**
Part 308	**Amendments—Rules of Practice and Procedure**
Part 308	**Subpart T—Program Fraud Civil Remedies Act Regulations**
Part 340	**Restrictions on the Purchase of Assets from the FDIC**
	Interim Final—McDade Amendment

Legislation

H.R. 1827	**Government Waste Corrections Act of 1999**
H.R. 582 & 2962	**Federal employee overtime provisions**
H.R. 2062	**The Right to Financial Privacy Act Amendments**
H.R. 218	**Relating to concealed weapons**
H.R. 10	**Financial Services Act of 1999**
S. 886	**Dodd Amendment**
S. 958	**Financial Institutions Insolvency Improvement Act**
	Draft proposed amendment to Paperwork Reduction Act

Note: Among the more significant regulations that OIG Counsel commented on during the period are the following:

Restrictions on the Purchase of Assets from the FDIC—
Mandated by the Resolution Trust Completion Act of 1993, which required the FDIC to prevent the sale of assets of failed institution to individuals who had caused the institution's failure. The OIG remains concerned that the Asset Purchaser Program is a self-certification program with no enforcement mechanism to deter false certifications.

Program Fraud Civil Remedies Act Regulations—
The OIG strongly opposed the FDIC's planned implementation of PFCRA regulations that limit recoveries for false claims and statements to cases of claims submitted in connection with FDIC corporate contracting. We believe the application of PFCRA should cover all contracting and program areas, such as the Corporation's Asset Purchaser Program.

results

Table 2:
Significant OIG Achievements
April 1999 - September 1999

$ millions	
Audit Reports Issued	22
Evaluation Reports Issued	4
Audit-Related Memorandums Issued •	10
Evaluation-Related Memorandums Issued	1
Questioned Costs and Funds Put to Better Use from Audit and Evaluation Reports	$ 16.4
Investigations Opened	42
Investigations Closed	30
OIG Subpoenas Issued	14
Convictions	7
Fines, Restitution, and Monetary Recoveries	$ 12.6
Hotline Allegations Referred	22
Allegations Substantiated	3
Allegations Closed	21
Proposed or Existing Regulations and Legislation Reviewed	14
Proposed FDIC Policies Reviewed	28
Responses to Requests & Appeals Under the Freedom of Information Act & Privacy Act	21

• These memorandums relate to audit work that did not result in formally issued audit reports.

Table 3
Nonmonetary Recommendations

April 1997–September 1997	110
October 1997–March 1998	52
April 1998–September 1998	77
October 1998–March 1999	133
April 1999–September 1999	66

figure 1

Reports Issued and Investigations Closed

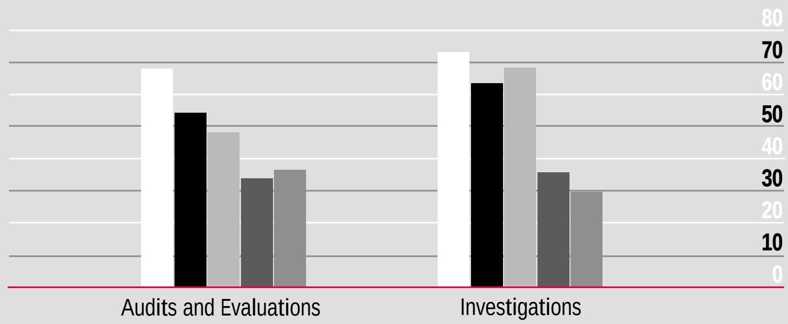


figure 2

Questioned Costs/Funds Put to Better Use

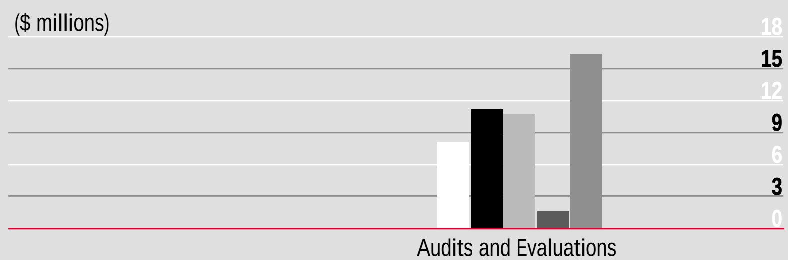
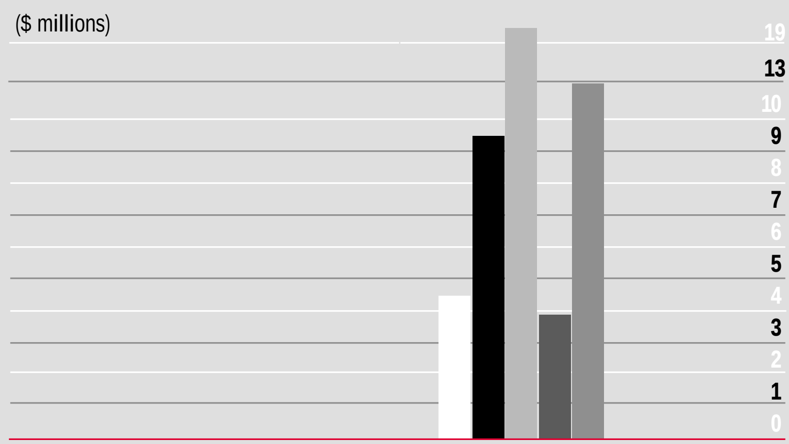


figure 3

Fines, Restitution, and Monetary Recoveries from OIG Investigations



Legend

- Apr 97–Sep 97
- Oct 97–Mar 98
- Apr 98–Sep 98
- Oct 98–Mar 99
- Apr 99–Sep 99*

* Figure 1: Includes audit-and evaluation-related memorandums

Reporting Terms and Requirements

Reader's Guide to Inspector General Act Reporting Terms

What Happens When Auditors Identify Monetary Benefits?

Our experience has found that the reporting terminology outlined in the Inspector General Act of 1978, as amended, often confuses people. To lessen such confusion and place these terms in proper context, we present the following discussion:

The Inspector General (IG) Act defines the terminology and establishes the reporting requirements for the identification and disposition of questioned costs in audit reports. To understand how this process works, it is helpful to know the key terms and how they relate to each other.

The first step in the process is when the audit report identifying **questioned costs•** is issued to FDIC management. Auditors question costs because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds. In addition, a questioned cost may be a finding in which, at the time of the audit, a cost is not supported by adequate documentation; or, a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

The next step in the process is for FDIC management to make a decision about the questioned costs. The IG Act describes a **"management decision"** as the final decision issued by management after evaluation of the finding(s) and recommendation(s) included in an audit report, including actions deemed to be necessary. In the case of questioned costs, this management decision must specifically address the questioned costs by either disallowing or not disallowing these costs. A **"disallowed cost,"** according to the IG Act, is a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Once management has disallowed a cost and, in effect, sustained the auditor's questioned costs, the last step in the process takes place which culminates in the **"final action."** As defined in the IG Act, final action is the completion of all actions that management has determined, via the management decision process, are necessary to resolve the findings and recommendations included in an audit report. In the case of disallowed costs, management will typically evaluate factors beyond the conditions in the audit report, such as qualitative judgements of value received or the cost to litigate, and decide whether it is in the Corporation's best interest to pursue recovery of the disallowed costs. The Corporation is responsible for reporting the disposition of the disallowed costs, the amounts recovered, and amounts not recovered.

Except for a few key differences, the process for reports with recommendations that funds be put to better use is generally the same as the process for reports with questioned costs. The audit report recommends an action that will result in funds to be used more efficiently rather than identifying amounts that may need to be eventually recovered.

Consequently, the management decisions and final actions address the implementation of the recommended actions and not the disallowance or recovery of costs.

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

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

Appendixes

- Appendix 1:
  Statistical Information
  Required by the
  Inspector General Act of 1978,
  as amended

Table I.1: Significant Recommendations From Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

This table shows the corrective actions management has agreed to implement but has not completed, along with associated monetary amounts. In some cases, these corrective actions are different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on information supplied by the FDIC's Office of Internal Control Management (OICM). These 40 recommendations from 15 reports involve monetary amounts of over $15.7 million. OICM has categorized the status of these recommendations as follows:

Management Action in Process: (19 recommendations from 11 reports, representing $0.3 million)
Management is in the process of implementing the corrective action plan, which may include modifications to policies, procedures, systems, or controls; issues involving monetary collection; and settlement negotiations in process.

Litigation: (21 recommendations from 4 reports, representing $15.4 million)
Each case has been filed and is considered "in litigation." The Legal Division will be the final determinant for all items so categorized.

Table I.1: Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
Not Numbered **Leasing and Renovation Activities** March 18, 1998	1	Implement policies and procedures that require cases submitted to the Board of Directors be standardized.
98-080 **DIRM Operating Expenses** September 15, 1998	1	Update the Acquisition Policy Manual to require that the Division of Administration’s Acquisition Services Branch employees ensure that future purchase requisitions for on-line services are reviewed and authorized by the Library Services Unit.
98-083 **Securitization Credit Enhancement Reserve Fund 1992-CHF** October 2, 1998	1	Require documentation from the trustee and servicers that will support the withdrawals from the reserve fund.
	2, 3	Disallow $385,727 in supplemental special servicer fees billed early or before any work was performed.
98-086 **Implementation of the Risk-Focused Examination Process** November 5, 1998	4	Provide a refresher course to field examiners on the use of the Examiner Laptop Visual Information System software and provide clarification on issues that have emerged since the modules have been instituted.
98-089 **DOS Coordination of Examinations with State Banking Authorities in the Kansas City Region** November 19, 1998	1	Ensure that the Division of Supervision (DOS) regional offices comply with the examination frequency requirements, regardless of the state agency requests or pending mergers.
	4	Return to a 12-month alternating examination cycle with the state of Iowa.
98-090 **Credit Enhancement Reserve Fund for Securitization Transactions 1993-03** November 24, 1998	2, 4	Quantify the amount of overstated realized losses, unrecorded proceeds, Corporate advances and refunds resulting from accounting errors and request reimbursement from NationsBanc, as successor to Boatmen.
	10	Perform or contract for on-site reviews of the servicer’s supporting documentation of the realized losses for the single-family residential loan securitization program.
99-005 **Material Loss Review – The Failure of BestBank, Boulder, Colorado** January 22, 1999	5	Modify existing policies to require the Regional Director to provide a written justification for taking no supervisory action on a “3,” “4,” or “5” rated institution.
	8	Develop and implement a policy where examiners review the Division of Compliance and Consumer Affairs (DCA) and state consumer complaint files on financial institutions that have been identified as a supervisory concern.
	10	Expand DOS’s Credit Card Specialty Bank Examination Guidelines to include policies and procedures for examining subprime credit card lending.

Table I.1: Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
EVAL 99-001 **Federal Deposit Insurance Corporation's Processing of Freedom of Information Act (FOIA)** February 26, 1999	7	Contact FOIA requesters to either inform them of delays in processing their FOIA requests or when it is expected that delays will occur.
EVAL 99-003 **Division of Supervision Case Manager Program-Views of Those Who Are Implementing It** March 31, 1999	3	Study whether the effort required to prepare the Quarterly Large Insured Depository Institutions Review is worth the value the reports provide; or actions that can be taken to increase the report's value.
99-013 **DCA Policy for Determining Examination Frequency, Scope, and Priority** March 15, 1999	5	Re-evaluate the risk areas defined and assign higher risk rankings to more accurately reflect the changes made to the frequency, scope, or priority of compliance examinations.
99-020 **Follow-on Audit of FDIC's General Examinations System (GENESYS) Development Project** March 31, 1999	12	Incorporate security features into GENESYS that will address security requirements in the functional requirements document and adequately protect confidential bank examination information against unauthorized disclosure or alteration.
	13	Perform a security review of GENESYS for compliance with corporate security standards and ensure that the application has adequate security.
Litigation		
95-032 **Local America Bank, F.S.B., Assistance Agreement** March 24, 1995	5	Recover $5,259,285 from the association for noncompliance with the tax benefits provisions of the assistance agreement.
96-014 **Superior Bank, F.S.B. Assistance Agreement, Case Number C-389c** February 16, 1996	1, 4-16	Recover $4,526,389 of assistance paid to Superior Bank.
97-080 **FDIC Property Tax Reassessments & Refunds, Western Service Center** July 17, 1997	8	Disallow the improperly paid late fees and special assessments totaling $4,385,089 and initiate action to prevent future payments of such amounts.
98-026 **Assistance Agreement Audit of Superior Bank, Case Number, C-389c** March 9, 1998	2, 3, 4, 6	Recover $1,220,470 of assistance paid to Superior Bank.
	11	Compute the effect of understated Special Reserve Account for Payments in Lieu of Taxes and remit any amounts due to the FDIC.

Table I.2:
Audit Reports
Issued by Subject Area

Report Number, Title, and Date	Questioned Costs		Funds Put to Better Use
	Total	Unsupported	
Supervision and Consumer Affairs			
99-032 **Division of Supervision Reliance on State Examinations** August 2, 1999			
99-037 **Analysis of Division of Supervision's 1999 Examination Workload** August 25, 1999			
99-042 **Analysis of Division of Compliance and Consumer Affairs' 1999 Examination Workload** September 30, 1999			
Award, Administration, and Oversight of Contracts and Agreements			
99-022 **Legal Fees Paid to Baker & Botts** April 14, 1999	$6,564		
99-023 **Kenneth Leventhal's Billings for Due Diligence Services Under Basic Ordering Agreement 700-90-0014 and Letter Agreement Dated May 26, 1992** April 22, 1999	$1,387,094	$297,025	
99-024 **Legal Fees Paid to Hunton & Williams** May 5, 1999	$199,246	$176,302	
99-025 **Legal Fees Paid to Twomey, Hoppe & Gallanty, L.L.P.** May 20, 1999	$872		
99-026 **Legal Fees Paid to Mullin, Hoard & Brown, L.L.P.** June 7, 1999	$597	$97	

Table I.2:
Audit Reports
Issued by Subject Area

Report Number, Title, and Date	Questioned Costs Total	Questioned Costs Unsupported	Funds Put to Better Use
Award, Administration, and Oversight of Contracts and Agreements (continued)			
99-029 **Kenneth Leventhal's Billings for Due Diligence Services Under Contract 700-90-0014 and Unsigned Letter Agreement Dated May 29, 1992** July 16, 1999	$2,604,100	$12,615	
99-031 **Legal Fees Paid to Roy, Kiesel & Tucker** July 27, 1999	$307		
99-033 **Legal Fees Paid to Peabody & Arnold, L.L.P.** August 5, 1999	$4,037	$291	
99-034 **Legal Fees Paid to Adorno & Zeder, P.A.** August 12, 1999	$41,937	$4,018	
99-036 **Payments to Dames & Moore** August 17, 1999	$80,504	$16,146	
Asset Servicing and Liquidation			
99-021 **Bank Midwest, NA—RTC Mortgage Trust 1995-SN2** April 15, 1999	$337,789		
99-027 **Limited Scope Audit of the Credit Enhancement Reserve Funds for Securitization Transactions for 1991-16 and 1992-05** July 6, 1999	$340,279	$7,156	
99-030 **Sun NLF, Limited Partnership Sterling Pacific Assets, Roseville, CA** July 28, 1999	$15,253		
99-035 **RTC Mortgage Trust 1992-N1** August 23, 1999	$1,222,259	$8,829	

Report Number, Title, and Date	Questioned Costs Total	Questioned Costs Unsupported	Funds Put to Better Use
Asset Servicing and Liquidation (continued)			
A99-038 **Abandoned Assets Held by States' Unclaimed Property Agencies** August 27, 1999			$3,300,000
D99-039 **Cost Effectiveness of the National Insurance Program** September 20, 1999			$115,000
Financial and Management Information Systems			
99-028 **Personnel Action Processing Controls and Security** July 29, 1999			
99-041 **Award & Administration of DIRM Service Contracts** September 30, 1999			
Corporate Activities and Administration			
EVAL-99-004• **Evaluation of FDIC Headquarters Copier Administration Program** June 15, 1999			$6,712,806
EVAL-99-006• **FDIC Headquarter Laser Printer Cartridges** August 19, 1999			$31,000
99-040 **Semiannual Report of FDIC Board Members' Travel Voucher Reviews March 1999 through August 1999** September 27, 1999			
Totals for the Period	**$6,240,838**	**$522,479**	**$10,158,806**

•Evaluation reports are included in this table to reflect funds put to better use amounts.

Table I.3: Audit Reports Issued with Questioned Costs

	Number	Questioned Costs Total	Questioned Costs 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.	14	$6,240,838	$522,479
Subtotals of A and B	**14**	**$6,240,838**	**$522,479**
C. For which a management decision was made during the reporting period.	14	$6,246,654	$522,479
(i) dollar value of disallowed costs.	14	$4,869,717 •	$348,878
(ii) dollar value of costs not disallowed.	5 ▼	$1,376,937	$173,601
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

• Management disallowed $5,816 more than questioned for one recommendation.

▼ The 5 reports included on the line for costs not disallowed are also included in the line for costs disallowed, since management did not agree with some of the questioned costs.

Table I.4: 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.	4	$10,158,806 •▼
Subtotals of A and B	**4**	**$10,158,806**
C. For which a management decision was made during the reporting period.	4	$10,158,806
(i) dollar value of recommendations that were agreed to by management.	4	$10,158,806
based on proposed management action.	4	$10,158,806
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

• Two evaluation reports, totaling $6,743,806, are included in the line.

▼ One evaluation report identified $31,000 for better use of funds. The savings identified are recurring in nature.

Table I.5: Status of OIG Recommendations Without Management Decisions

During this reporting period, there were no recommendations without management decisions.

Table I.6: Significant Revised Management Decisions

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

Table I.7: Significant Management Decisions with Which the OIG Disagreed

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

Table I.8: Instances Where Information Was Refused

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

Report Number, Title, and Date	Title
EVAL-99-004 June 17, 1999	Evaluation of FDIC Headquarters Copier Administration Program
EVAL-99-005 July 9, 1999	FDIC's Relocation Program
EVAL-99-006 August 20, 1999	FDIC Headquarters Laser Printer Cartridges
EVAL-99-007 September 30, 1999	Evaluation of FDIC Regional Copier Program

Appendix III: Statistical Information Related to OIG Completion of RTC Contractor Reviews

Before the Resolution Trust Corporation (RTC) sunset, the OIG agreed to assume responsibility for completing the reviews of RTC contractors initiated or planned by an RTC management oversight unit. OIG work included resolution of more than 1,000 recommendations in the backlog of unresolved reports transitioned to the FDIC on January 1, 1996, and 340 recommendations from reports generated by the OIG Office of Quality Assurance and Oversight. The tables below present information related to these OIG activities as of September 30, 1999.

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

Appendix III

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

	Number of Recommendations	Questioned Costs Disallowed ($ millions)
Total Management Actions Required	340	$ 11.44
Management Actions Completed:		
A. Prior to This Reporting Period	332	$ 8.58
B.This Reporting Period	2	$ 0.49
Subtotals of A and B	**334**	**$ 9.07**
Management Actions Remaining to Be Completed as of Sept. 30, 1999	6	$ 2.37

Appendix III

Table III.2: Status of Management Actions on Recommendations Contained in RTC Contractor Expiration Review Reports Issued Before January 1, 1996 ●

	Number of Recommendations	Questioned Costs Disallowed ($ millions)	Other Costs Disallowed ($ millions)
Total Management Actions Required	1,545▼	$ 85.98▼	$ 27.30
Management Actions Completed as of Sept. 30, 1999	1,540	$ 102.93	$ 13.14
Management Actions Remaining to be Completed as of Sept. 30, 1999	5	$ 1.52■	$ 0.00

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

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

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

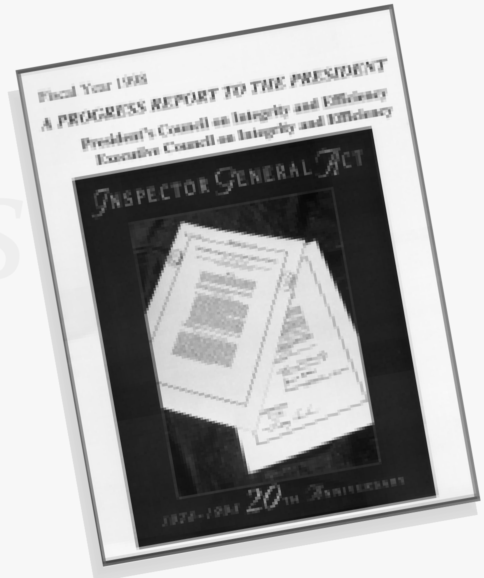
A number of staff from the OIG were honored at the annual award ceremony of the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. Magdaleno Velasquez accepted the Award for Excellence on behalf of a team of auditors from the Board of Governors of the Federal Reserve System, National Credit Union Administration, Department of the Treasury, and the FDIC for their work on the *Joint Review of the Federal Financial Institutions Examination Council's (FFIEC) Training Program*. The audit team made recommendations to help improve management of the FFIEC's training program and thereby maximize its usefulness to member agencies.

Additionally, two groups from our office received Honorable Mention awards: our Y2K audit team members for their work regarding the FDIC's internal and regulatory efforts to address Y2K concerns and the inter-disciplinary team responsible for the audit and report on the *Material Loss Review of the Failure of BestBank, Boulder, Colorado*. Finally, a member of our financial statement audit group was included in a group award to the Federal Audit Executive Council's Financial Statement Audit Network team.

congratulations!

The OIG is proud of the individuals who realized these accomplishments.

progress



Offices of Inspector General Have Government-wide Impact

The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) issued their joint annual report highlighting results of the OIG community during fiscal year (FY) 1998. As a member of the PCIE, the FDIC OIG is proud of the excellent progress that the Inspector General community has made in its efforts to promote more efficient, economical, and effective programs and operations throughout the federal government.

As discussed in their report, entitled *A Progress Report to the President*, PCIE and ECIE members identified during FY 1998 alone over $16 billion of federal funds that could be put to better use by government managers. Over that same period, nearly 15,000 wrongdoers were successfully prosecuted, almost $1.4 billion in restitution and investigative recoveries were realized, and more than 7,000 unscrupulous individuals or firms were disqualified from receiving government contracts or otherwise participating in government programs.

To view the PCIE/ECIE report, please visit:
www.ignet.gov
or contact:
the Environmental Protection Agency OIG
at (202) 260-3137.

Federal Deposit Insurance Corporation
Office of Inspector General
801 17th Street, NW
Washington, DC 20434

inspector general

For additional copies or information,
contact us at the above address.

All audit and evaluation reports discussed
in this Semiannual Report can be found
in their entirety at our homepage:
www.ignet.gov/ignet/internal/fdic