Office of Inspector General

# Business Plan

2013

January 2013

# *Inspector General Foreword*

The FDIC Office of Inspector General's (OIG) Business Plan is intended as a blueprint for the audit and evaluation assignments, investigations, and other projects that we expect to carry out during the course of the year.

With recent improvements in the economy and in the banking industry, fewer banks are failing and our priority work of the past few years--examining the causes of bank failures and the FDIC's supervision of failed banks--has declined significantly. This body of work has had a positive impact on the FDIC's supervision program, and we will continue efforts to ensure that enhancements made to the FDIC's supervisory processes help ensure the continued safety and soundness of the nation's banks going forward. Given the FDIC's role as receiver of failed institutions, over the past 2 years, another priority area emerged. That is, we undertook a number of assignments related to the FDIC's activities in managing and disposing of the large number of assets it has inherited. Specifically, we have examined a number of risk-sharing agreements that the FDIC has engaged in with other parties—by way of shared-loss agreements (SLA) and/or structured asset sales. We looked at individual transactions and took a broader look at controls over the SLA program as well. We made many recommendations as a result of that work—some monetary and some that suggested enhanced controls, and that body of work has also been well received by the Corporation. We expect to continue efforts in these areas in the upcoming year but to expand our coverage of resolution and receivership activities to some new areas as well.

Of special note, during FY 2012, in response to passage of Public Law 112-88, we conducted a comprehensive study on the impact of failed depository institutions. This mandatory study was very labor-intensive and consumed nearly one-third of our audit and evaluation resources during the year, along with contractor resources. Our work explored eight different matters—shared loss agreements, losses, appraisals, capital, workouts, enforcement orders, FDIC policy, and private equity companies. We anticipate possible Congressional hearings during FY 2013 as a follow-on to that study, as envisioned by the law.

During the past year, to the extent possible, we shifted, and in 2013 will continue to shift, available resources to other areas of FDIC operations, including some activities that we have not addressed for some time, and other activities that reflect new responsibilities for the FDIC or a change in existing programs and operations. This plan contains brief descriptions of the audits, evaluations, investigations, and other activities that we will pursue in those areas, including, for example, attention to the FDIC's compliance examination process, administrative practices related to travel and procurement cards, information technology project management, and the FDIC's regional operations.

We note, in particular, that an important area where we will target resources during 2013 relates to the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act expands the FDIC's authority to resolve systemically important financial institutions (SIFI). The Corporation's Office of Complex Financial Institutions was created subsequent to the passage of the Act and continues to evolve as the principal player in carrying out responsibilities for these types of entities. Also under Title II of the Act, Orderly Liquidation, the FDIC OIG is required to conduct, supervise, and coordinate audits and investigations of the liquidation of any covered financial company by the Corporation as receiver. Thus, in addition to focusing on steps the Corporation is taking to protect the sensitive information that it possesses related to the SIFIs, and to ensure its readiness for a resolution scenario involving a SIFI, we will be making sure that we too are prepared to respond to the requirements of the Act.

As we return to a more steady state of operations in the post-crisis period, we can plan our work in advance and more definitively; however, our practice is to plan for about 75 percent of our resources, allowing us flexibility to monitor ongoing activities and risks and address emerging issues in the coming months by way of audits, evaluations, investigations, and other projects. Our history has shown that a number of unanticipated assignments come up during the course of the year—for example by way of Congressional or senior management requests, as was the case in FY 2012 when, for example, we responded to a Senate Banking Committee request that we review the FDIC's examination process for small community banks. Additionally, as a member of the Council of Inspectors General on Financial Oversight (CIGFO), created by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are required to undertake work in connection with the Financial Stability Oversight Council, including providing input to CIGFO's semiannual reporting of its members' activity and participating in any joint projects, as those present themselves. Last year we took the lead role on one such project—an audit of the Financial Stability Oversight Council's Controls over Non-public Information.

In addition to the audits and evaluations that we intend to conduct this year, our Business Plan includes references to the types of investigative activity that we will undertake in support of our strategic goals. The majority of our investigative cases involve operations at open and closed banks, criminal restitution activity, and electronic crimes. These investigations are normally initiated based on information received from the FDIC, the United States Attorneys' Offices, or other law enforcement agencies. Traditionally, investigations are reactive, but, to the extent possible, we are taking steps to be more proactive in our approach. We continue to work closely with FDIC management and our law enforcement colleagues to develop internal means of identifying risk areas up-front and to leverage information available to us and our investigative resources to address these issues. We are committed to preventing and deterring criminal or otherwise prohibited activities that threaten the integrity of the financial services industry and, importantly, to keeping those involved in such activities out of the industry going forward.

I would note finally that as a key activity related to our internal goal of building and sustaining a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships, we will continue to focus on the internal operations of our office--the management and business aspects of the OIG. We are examining our day-to-day policies, procedures, and business processes to ensure appropriate controls and quality in all aspects of our work as an OIG. We have a number of internal projects planned to ensure cost-effective management and security of OIG resources; quality and efficiency of audits, evaluations, investigations, and other activities; professional development and training; strong working relationships; and effective risk management activities.

We underscore our commitment to our stakeholders--the FDIC, Congress, other regulatory agencies, IG colleagues, law enforcement partners, and the public. They have all informed our thinking over the past year and we are grateful for their cooperative spirit and support of our work. We rely on the continued strength of these working relationships as we work in the best interest of the American people in the upcoming year.

While we believe the worst of the recent crisis is over, the future continues to hold many challenges for the FDIC and for the OIG. I count on the continued support of our stakeholders as we continue to address challenges that face us.

/Signed/

Jon T. Rymer
Inspector General

# Mission, Vision, Goals, Means, and Strategies

## Mission and Vision

The FDIC OIG is an independent and objective unit established under the Inspector General Act of 1978, as amended (IG Act). Our mission is to promote the economy, efficiency, and effectiveness of FDIC programs and operations, and protect against fraud, waste, and abuse to assist and augment the FDIC's contribution to stability and public confidence in the nation's financial system. In carrying out our mission, we conduct audits, evaluations, and investigations; review existing and proposed legislation and regulations; and keep the FDIC Chairman and the Congress currently and fully informed of problems and deficiencies relating to FDIC programs and operations.

In addition to the IG Act, the OIG also has statutory responsibilities to perform material loss reviews of failed FDIC-supervised depository institutions under the provisions of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and to evaluate the FDIC's information security program and practices under the provisions of the Federal Information Security Management Act of 2002. As a fairly new responsibility, in line with Title II of the Dodd-Frank Act, the FDIC IG is required to conduct, supervise, and coordinate audits and investigations of the liquidation of any covered financial company by the Corporation as receiver—to include systemically important financial institutions.

Our vision is to be a quality-focused FDIC team that promotes excellence and trust in service to the Corporation and the public interest.

## Strategic Goals and Performance Measures

The OIG has reviewed the FDIC operating environment looking at long-term and short-term issues facing the Corporation, as well as areas where significant change has occurred or is occurring. As part of the FDIC's annual reporting process, we develop "Management and Performance Challenges" reflecting significant issues that the Corporation faces in carrying out its mission. We also communicate with congressional staff and monitor the issues facing the Congress in its hearings and reports. The OIG communicates regularly with representatives from other OIGs of financial regulatory agencies, the Government Accountability Office (GAO), regulatory agency officials, and OIGs throughout the federal community. We also maintain ongoing dialogue with the FDIC's senior leadership and meet on an ongoing basis with FDIC Board Members and other senior executives to discuss their areas of challenge and concern. We believe that this process has validated

OIG strategic goals that are mission-related and outcome-oriented, and that will contribute to the achievement of the FDIC's mission.

The OIG has established six strategic goals. Five of these strategic goals, which are our external goals, relate to the FDIC's programs and activities. These goals are as follows:

The OIG will

- Assist the FDIC to ensure the nation's banks operate safely and soundly.
- Help the FDIC maintain the viability of the insurance fund.
- Assist the FDIC to protect consumer rights and ensure customer data security and privacy.
- Help ensure that the FDIC effectively and efficiently resolves failing banks and manages receiverships.
- Promote sound governance and effective stewardship and security of human, financial, information technology, and physical resources.

In addition, we have established a sixth (internal) strategic goal:

The OIG will

- Build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships.

## Performance Measures

We have developed qualitative performance measures that reflect mission-related goals and outcomes. These complement our quantitative performance measures. Each qualitative performance goal includes efforts representing ongoing work or work to be undertaken during 2013 in support of the goal. We will measure our success in meeting our qualitative goals by assessing the extent to which we accomplish the work described in the efforts under each goal. As part of our assessment, we consider the amount of work conducted and the results and recommendations made for each effort, and then determine whether the overall body of work produced adequately achieves or addresses the related goal.

We are also continuing to use quantitative measures that emphasize outcomes and results. These measures include financial benefits resulting from our audits, evaluations, and investigations; investigation actions (e.g., indictments, convictions, employee actions); recommendations implemented; and timeliness and cost-effectiveness of our work and related products.

Together, our qualitative and quantitative performance measures will help us determine the degree to which the OIG's work provides timely, quality support to the FDIC, the Congress, the banking industry, and the public. We will periodically assess the results of our performance and the appropriateness of our performance measures and goals, and make changes, as warranted.

## OIG Resources Management

As for Goal 6, we have a number of internal initiatives planned to improve the quality and effectiveness of OIG processes and products.  Our efforts in this area have a strategic importance for the OIG to ensure that we produce high-quality work, operate effectively, maintain our independence, and sustain the positive working relationships that we have established with our stakeholders.  During FY 2012 we took a closer look at our internal operations to assess the efficiency and effectiveness of our own management processes and related controls. Such efforts have strengthened our operations and will continue in earnest during FY 2013.

## Means and Strategies

To achieve our strategic and performance goals, we provide objective, fact-based information and analysis to the Congress, the FDIC Chairman, other FDIC officials, and the Department of Justice.  This effort typically involves our audits, evaluations, or criminal investigations conducted pursuant to the IG Act and in accordance with applicable professional standards. We also make contributions to the FDIC in other ways, such as reviewing and commenting on proposed corporate policies and draft legislation and regulations; participating as advisors in joint projects with management; providing technical assistance and advice on various issues such as information technology, planning, risk management, and human capital; and participating in internal FDIC meetings, conferences, and seminars.

In planning and budgeting our resources, we use an enterprise-wide risk assessment and planning process that considers current and emerging industry trends; the FDIC Chairman's priorities; and corporate programs, operations, and risks.  Our areas of audit and evaluation coverage for the coming year are based in part on the OIG's assessment of risks to the FDIC in meeting its strategic goals and objectives.  This risk-based assessment process is linked to the Corporation's program areas and the OIG's identification of management and performance challenges in those areas.  In formulating our planned work for 2013, we are particularly attuned to the activities in the financial services industry, as the FDIC emerges from the recent financial crisis and faces new responsibilities and challenges brought about with passage of the Dodd-Frank Act.  While there are signs of an improved economy and financial services industry, risks persist, institutions continue to fail, resolution and receivership challenges continue, and new challenges are emerging on the global front.  We have also received input from the FDIC Board Members, senior FDIC management and members of the FDIC Audit Committee, as well as the Congress with respect to their areas of concern or interest.

Conducting investigations of activities that may harm or threaten to harm the operations or integrity of the FDIC and its programs is a key activity for achieving our goals.  Our cases involve fraud at financial institutions, obstruction of FDIC examinations, misrepresentations of deposit insurance coverage, identity theft crimes, concealment of assets by FDIC debtors, or criminal or other serious misconduct on the part of FDIC employees or contractors.  Over the past several years, we saw a substantial increase in cases related to mortgage fraud, and some work in that realm will continue in 2013. A principal area of emphasis going forward will be on enforcement actions and liability claims—that is, supporting corporate efforts to pursue actions and professional liability claims against directors, officers, and other institution-affiliated parties whose behavior may have contributed to losses in, and sometimes failures of, insured depository institutions.

We continue to examine the manner in which we select cases to investigate and explore ways to approach investigations in a more proactive manner, using information available to us to discern potential problems or red flags. An important area in this regard is the Corporation's resolution and receivership activities, where billions of dollars in assets are involved in risk-sharing agreements with other parties and the FDIC's interests must be protected.

In conducting our investigations, we coordinate and work closely with U.S. Attorneys' Offices, other law enforcement organizations, and FDIC divisions and offices.  The OIG also operates an Electronic Crimes Unit (ECU) and laboratory in Virginia Square headquarters.  The ECU is responsible for conducting computer-related investigations and providing computer forensic support to investigations nationwide.  We also manage the OIG Hotline and related Inquiry System. FDIC employees, contractors, and others are encouraged to report allegations of fraud, waste, abuse, and mismanagement via a toll-free number, facsimile, regular mail, or e-mail. We are also responsive to numerous more routine inquiries and information requests from the public on a daily basis.

Another means of ensuring we achieve our goals is to maintain positive working relationships with the Congress, the FDIC Chairman, other FDIC officials, and other OIG stakeholders.  We provide timely, complete, and high-quality responses to congressional inquiries and communicate regularly with the Congress about OIG work and our results.  Also, the OIG communicates with the Chairman, Vice Chairman, other Board Members, and senior executives through briefings about ongoing and completed work and is a regular participant at the FDIC's Audit Committee meetings, where completed assignments are presented to the FDIC Vice Chairman, who serves as Audit Committee Chair, and other members. The OIG also places a high priority on building strong alliances with GAO and the Council of the Inspectors General on Integrity and Efficiency, and other financial regulatory agencies' Offices of Inspector General, in particular.  The Dodd-Frank Act created the Financial Stability Oversight Council and a corresponding Council of Inspectors General on Financial Oversight, of which the FDIC IG is currently serving as Vice Chair.

## OIG Staff

The OIG's employees are our most important resource for accomplishing our mission and achieving our goals.  For that reason, we strive to operate a human resources program that attracts, develops, motivates, rewards, and retains a highly skilled, diverse, and capable staff.

The OIG staff is comprised of auditors, criminal investigators, attorneys, program analysts, computer specialists, and administrative personnel. The OIG staff holds numerous advanced educational degrees and possesses a number of professional licenses and certificates. The OIG encourages staff to continue professional and leadership development and provides access to professional and banking industry educational opportunities. To maintain professional proficiency, each of our staff attains continuing professional education and other training annually.

The OIG downsized its staff for several years in response to changes in the banking industry that resulted in bank consolidations and improved financial health and the near completion of resolutions of failed institutions during the banking and thrift crises of the 1980s and early 1990s. This changed, however, during the recent crisis, which saw an increase in the number of institution failures and the number of institutions on the Corporation's Problem Bank List. As a result, the OIG experienced a corresponding upswing in our mandatory failure-related workload that impacted every component of our office throughout the crisis. Overall OIG staffing decreased from an authorized level of 190 in fiscal year 2003 to an authorized level of 168 (full-time equivalent of 159) in fiscal year 2011. For FY 2012, our authorized staffing level was 144 full-time equivalents, and for 2013, we proposed full-time equivalents of 130. We expect to maintain the same full-time equivalent of 130 in FY 2014 as well.

While the economy and financial services industry are emerging from severe crisis conditions, we continue to closely monitor our resource needs in light of the challenges brought on by the crisis, the FDIC's resolution and receivership activities, and its new responsibilities under the Dodd-Frank Act. We will take all steps necessary to leverage our resources and ensure we can continue to meet workload demands through OIG staffing and supplemental contractor resources.

## Information Technology

We strive to closely link information technology (IT) planning and investment decisions to our mission and goals, thus helping ensure that OIG managers and staff have the IT tools and services they require to successfully and productively perform their work. We want to enable our managers and staff, through reliable and modern technology, to maximize productivity and responsiveness. To help realize this goal and vision, our strategy is to pursue IT solutions that optimize our effectiveness and efficiency, connectivity, reliability, and security, and employ best practices in managing our IT systems, services, and investments. In 2013, we will continue to explore ways to leverage the various IT resources of our component offices. Given that our office has access to and handles a high volume of highly sensitive information, we will continue to focus on ensuring the security of the OIG's systems and infrastructure.

## Relationship of the OIG to the FDIC

The IG Act, as amended, makes the OIG responsible for keeping both the FDIC Chairman and the Congress fully and currently informed about problems and deficiencies relating to FDIC programs and operations. This dual reporting responsibility makes our role unique at the FDIC and can present a number of challenges for establishing and maintaining an effective working relationship with management. Although we are an integral part of the Corporation, unlike any other FDIC division or office, our legislative underpinning requires us to operate as an independent and objective oversight unit at the same time. As such, a certain amount of tension with the Corporation may be inherent in the nature of our mission. Notwithstanding, the OIG has established a cooperative and productive relationship with the Corporation by fostering open and honest communication with all levels of FDIC leadership and management; building relationships based upon mutual respect; conducting our work in an objective and professional manner; and recognizing and addressing the risks, priorities, and needs of the FDIC.

# FDIC Office of Inspector General
# Business Plan Framework
# (2008 – 2013)

## Vision

***The Office of Inspector General is a quality-focused FDIC team that promotes excellence and trust in service to the Corporation and the public interest.***

## Mission

***The Office of Inspector General promotes the economy, efficiency, and effectiveness of FDIC programs and operations, and protects against fraud, waste, and abuse, to assist and augment the FDIC's contribution to stability and public confidence in the nation's financial system.***

## Strategic Goals

| **Safety & Soundness** | **Insurance** | **Consumer Protection** | **Receivership Management** | **FDIC Resources Management** | **OIG Resources Management** |
|---|---|---|---|---|---|
| Assist the FDIC to ensure the nation's banks operate safely and soundly | Help the FDIC maintain the viability of the insurance fund | Assist the FDIC to protect consumer rights and ensure customer data security and privacy | Help ensure that the FDIC efficiently and effectively resolves failing banks and manages receiverships | Promote sound governance and effective stewardship and security of human, financial, IT, and physical resources | Build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships |

## FY 2013 Performance Goals

| Safety & Soundness | Insurance | Consumer Protection | Receivership Management | FDIC Resources Management | OIG Resources Management |
|---|---|---|---|---|---|
| ▪ *Help ensure the effectiveness and efficiency of the FDIC's supervision program*<br>▪ *Investigate and assist in prosecuting Bank Secrecy Act violations, money laundering, terrorist financing, fraud, and other financial crimes in FDIC-insured institutions* | ▪ *Evaluate corporate programs to identify and manage risks that can cause losses to the fund* | ▪ *Contribute to the effectiveness of the Corporation's efforts to ensure compliance with consumer protections at FDIC-supervised institutions*<br>▪ *Support corporate efforts to promote fairness and inclusion in the delivery of products and services to consumers and communities*<br>▪ *Conduct investigations of fraudulent representations of FDIC affiliation or insurance that negatively impact public confidence in the banking system* | ▪ *Evaluate the FDIC's plans and systems for managing bank resolutions*<br>▪ *Investigate crimes involved in or contributing to the failure of financial institutions or that lessen or otherwise affect recoveries by the Deposit Insurance Fund involving restitution or otherwise.* | ▪ *Evaluate corporate efforts to manage human resources and operations efficiently, effectively, and economically*<br>▪ *Promote integrity in FDIC internal operations*<br>▪ *Promote alignment of IT with the FDIC's business goals and objectives*<br>▪ *Promote IT security measures that ensure the confidentiality, integrity, and availability of corporate information*<br>▪ *Promote personnel and physical security*<br>▪ *Promote sound corporate governance and effective risk management and internal control efforts* | ▪ *Effectively and efficiently manage OIG human, financial, IT, and physical resources*<br>▪ *Ensure quality and efficiency of OIG audits, evaluations, investigations and other projects and operations*<br>▪ *Encourage individual growth and strengthen human capital management and leadership through professional development and training*<br>▪ *Foster good client, stakeholder, & staff relationships*<br>▪ *Enhance OIG risk management activities* |

# Strategic Goals and Planned OIG Activities

## Goal 1: Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. The FDIC is the primary federal regulator for 4,510 FDIC-insured, state-chartered institutions that are not members of the Federal Reserve Board (FRB)—generally referred to as "state non-member" institutions. Historically, the Department of the Treasury (the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision OTS)) or the FRB have supervised other banks and thrifts, depending on the institution's charter. The winding down of the OTS under the Dodd-Frank Act resulted in the transfer of supervisory responsibility for about 60 state-chartered savings associations to the FDIC, all of which were considered small and that were absorbed into the FDIC's existing supervisory program. About 670 federally chartered savings associations were transferred to the OCC. As insurer, the Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for about 2,670 national banks, state-chartered banks that are members of the FRB, and those savings associations now regulated by the OCC.

The examination of the institutions that it regulates is a core FDIC function. Through this process, the FDIC assesses the adequacy of management and internal control systems to identify, measure, monitor, and control risks; and bank examiners judge the safety and soundness of a bank's operations. The examination program employs risk-focused supervision for banks. According to examination policy, the objective of a risk-focused examination is to effectively evaluate the safety and soundness of the bank, including the assessment of risk management systems, financial condition, and compliance with applicable laws and regulations, while focusing resources on the bank's highest risks. Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness relates to compliance with the Bank Secrecy Act, which requires financial institutions to keep records and file reports on certain financial transactions. An institution's level of risk for potential terrorist financing and money laundering determines the necessary scope of a Bank Secrecy Act examination.

The passage of the Dodd-Frank Act brought about significant organizational changes to the FDIC's supervision program in the FDIC's former Division of Supervision and Consumer Protection (DSC). That is, the FDIC Board of Directors approved the establishment of an Office of Complex Financial Institutions (OCFI) and a Division of Depositor and Consumer Protection. In that connection, DSC became the Division of Risk Management Supervision (RMS). Subsequently, OCFI began its operations and is now focusing on overseeing bank holding companies with more than $100 billion in assets and their corresponding insured depository institutions. OCFI is also responsible for non-bank financial companies designated as systemically important by the Financial Stability Oversight Council, of which the FDIC is a voting member. OCFI and RMS coordinate closely on all supervisory activities for insured state non-member institutions that exceed $100 billion in assets, and RMS is responsible for the overall Large Insured Depository Institution program.

Prior to passage of the Dodd-Frank Act, in the event of an insured depository institution failure, the Federal Deposit Insurance (FDI) Act required the cognizant OIG to perform a review when the DIF incurs a material loss. Under the FDI Act, a loss was considered material to the insurance fund if it exceeded $25 million and 2 percent of the failed institution's total assets. With the passage of the Dodd-Frank Act, the loss threshold was increased to $200 million through December 31, 2011, to $150 million through December 2013, and $50 million thereafter. The FDIC OIG performs the review if the FDIC is the primary regulator of the institution. The Department of the Treasury OIG and the OIG at the FRB perform reviews when their agencies are the primary regulators. These reviews identify what caused the material loss, evaluate the supervision of the federal regulatory agency (including compliance with the Prompt Corrective Action (PCA) requirements of the FDI Act), and generally propose recommendations to prevent future failures. Importantly, under the Dodd-Frank Act, the OIG has been required to review all losses incurred by the DIF under the $200 million threshold to determine (a) the grounds identified by the state or Federal banking agency for appointing the Corporation as receiver and (b) whether any unusual circumstances exist that might warrant an in-depth review (IDR) of the loss. That requirement will continue during 2013 for failures under the threshold of $150 million. The OIG has implemented processes to conduct and report on material loss reviews (MLR) and IDRs of failed FDIC-supervised institutions, as warranted, and continues to review all failures of FDIC-supervised institutions for any unusual circumstances.

The number of institutions on the FDIC's "Problem List" as of December 31, 2012 was 651, indicating a probability of more failures to come and an additional asset disposition workload. Total assets of problem institutions were $233 billion. Importantly, however, the number of institutions on the Problem List and corresponding assets continues to trend downward. These trends will affect our planned work during the coming year.

While the OIG's audits and evaluations address various aspects of the Corporation's supervision and examination activities, through their investigations of financial institution fraud, the OIG's investigators also play a critical role in helping to ensure the nation's banks operate safely and soundly. Because fraud is both purposeful and hard to detect, it can significantly raise the cost of a bank failure, and examiners must be alert to the possibility of fraudulent activity in financial institutions.

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

Importantly, our criminal investigations can also be of benefit to the FDIC in pursuing enforcement actions to prohibit offenders (often bank insiders themselves) from continued participation in the banking system. During 2013, we intend to step up such efforts to help ensure the integrity of those individuals occupying positions of trust within financial institutions and/or providing professional services to the institutions.

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

The OIG's investigations of financial institution fraud historically constitute about 90 percent of the OIG's investigation caseload. The OIG is also committed to continuing its involvement in interagency forums addressing fraud at both open and closed institutions. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, the OIG engages in industry outreach efforts to keep financial institutions informed on fraud-related issues and to educate bankers on the role of the OIG in combating financial institution fraud.

To assist the FDIC to ensure the nation's banks operate safely and soundly, the **OIG's 2013 performance goals** are as follows:

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

## OIG Work in Support of Goal 1

### Reviews of Failed Banks

We will conduct MLRs or IDRs of failures of FDIC-supervised insured depository institutions, as mandated. We will ascertain why the institution's problems resulted in a loss to the DIF, and review the FDIC's supervision of the institution, including implementation of FDI Act section 38, Prompt Corrective Action. MLRs must be conducted within 6 months of the loss determination. IDRs are done on a somewhat more flexible schedule determined by the OIG. Failure reviews of all failed institutions for which the FDIC is the primary federal regulator will be ongoing. [Audit]

### Examination Coverage of Bank Secrecy Act and Anti-Money Laundering

FDIC-supervised financial institutions are required to establish and maintain procedures designed to assure and monitor compliance with the requirements of the BSA and related anti-money laundering and anti-terrorism laws. The audit is intended to evaluate the FDIC's supervisory activities designed to promote effective programs at financial institutions for complying with BSA and related laws and regulations. [Audit]

### FDIC IT Risk Management Program – Denial of Service and Associated Risks

Recently, various sophisticated groups launched distributed denial of services attacks directed at financial institutions or technology service providers. These attacks seek to deny Internet access to bank services by directing waves of Internet-based traffic from compromised computers to the institution. In some instances the attacks serve as a form of distraction while the attacker gains unauthorized remote access to sensitive customer account information. This evaluation will assess the FDIC's examination coverage of institutions' IT controls designed to prevent these attacks and other related risks. [Evaluation]

### Fraud and Other Financial Crimes

Our investigative staff will respond to and investigate allegations of fraudulent activity, including mortgage fraud, and other financial crimes affecting open and closed FDIC-insured institutions, referred to the OIG by the FDIC, U.S. Attorneys' Offices, other law enforcement agencies, or identified through review and analysis of Suspicious Activity Reports filed by financial institutions.

### Task Forces

We will actively participate in law enforcement and other regulatory task forces and working groups to identify cases warranting FDIC OIG attention and trends or activities that negatively impact the financial services industry and the banking public.

## Goal 2: Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

Federal deposit insurance remains a fundamental part of the FDIC's commitment to maintain stability and public confidence in the nation's financial system. With enactment of the Emergency Economic Stabilization Act of 2008, the limit of the basic FDIC deposit insurance coverage was raised temporarily from $100,000 to $250,000 per depositor, through December 31, 2009. Such coverage was subsequently extended through December 31, 2013, and the Dodd-Frank Act made permanent the increase in the coverage limit to $250,000. It also provided deposit insurance coverage on the entire balance of non-interest bearing transaction accounts at all insured depository institutions until December 31, 2012. A priority for the FDIC is to ensure that the Deposit Insurance Fund (DIF) remains viable to protect all insured depositors. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

Since year-end 2007, the failure of FDIC-insured institutions has imposed total estimated losses of nearly $87 billion on the DIF. The sharp increase in bank failures over the past several years caused the fund balance to become negative. The DIF balance turned negative in the third quarter of 2009 and hit a low of negative $20.9 billion in the following quarter.

In the aftermath of the financial crisis, FDIC-insured institutions continue to make gradual but steady progress. Commercial banks and savings institutions insured by the FDIC reported aggregate net income of $37.6 billion in the third quarter of 2012, a $2.3 billion (6.6 percent) improvement from the $35.2 billion in profits the industry reported in the third quarter of 2011. This is the 12th consecutive quarter that earnings have registered a year-over-year increase. Also noteworthy with respect to the viability of the fund was the decline in the number of banks on the FDIC's "Problem List" from 813 in the fourth quarter of 2011 to 651 in the fourth quarter of 2012. The fourth quarter marked the seventh consecutive quarter that the number of problem banks has fallen. As noted earlier, total assets of "problem" institutions also declined year-over-year between 2011 and 2012 from $319 billion to $233 billion. Eight insured institutions failed during the fourth quarter--the smallest number of failures in a quarter since the second quarter of 2008, when there were two.

In light of such progress, the DIF balance has continued to increase. During the fourth quarter of 2012, the DIF balance increased by $7.7 billion, from $25.2 billion to $33.0 billion. Over the twelve consecutive quarters since the beginning of 2010, the fund balance has increased a total of $53.8 billion.

While the fund is considerably stronger than it has been, the FDIC must continue to monitor the emerging risks that can threaten fund solvency in the interest of continuing to provide the insurance coverage that depositors have come to rely upon.

The FDIC has also implemented the Dodd-Frank Act requirement to redefine the base used for deposit insurance assessments as average consolidated total assets minus average tangible equity rather than an assessment based on domestic deposits. The FDIC does not expect this change to materially affect the overall amount of assessment revenue that otherwise would have been collected. However, as Congress intended, the change in the assessment base will generally shift some of the overall assessment burden from community banks to the largest institutions, which rely less on domestic deposits for their funding than do smaller institutions. The result will be a sharing of the assessment burden that better reflects each group's share of industry assets. The FDIC estimated that aggregate premiums paid by institutions with less than $10 billion in assets would decline by approximately 30 percent, primarily due to the assessment base change.

The FDIC, in cooperation with the other primary federal regulators, proactively identifies and evaluates the risk and financial condition of every insured depository institution. The FDIC also identifies broader economic and financial risk factors that affect all insured institutions. The FDIC is committed to providing accurate and timely bank data related to the financial condition of the banking industry. Industry-wide trends and risks are communicated to the financial industry, its supervisors, and policymakers through a variety of regularly produced publications and ad hoc reports. Risk-management activities include approving the entry of new institutions into the deposit insurance system, off-site risk analysis, assessment of risk-based premiums, and special insurance examinations and enforcement actions. In light of increasing globalization and the interdependence of financial and economic systems, the FDIC also supports the development and maintenance of effective deposit insurance and banking systems world-wide.

Responsibility for identifying and managing risks to the DIF lies with the FDIC’s Division of Insurance and Research, RMS, Division of Resolutions and Receiverships, and OCFI. The FDIC’s new Office of Corporate Risk Management also plays a key role in identifying risks. To help integrate the risk management process, the FDIC established the Enterprise Risk Committee, a cross-divisional body. Also, a Risk Analysis Center monitors emerging risks and along with Regional Risk Committees, reports to the Enterprise Risk Committee.

Over recent years, the consolidation of the banking industry resulted in fewer and fewer financial institutions controlling an ever expanding percentage of the nation’s financial assets. The FDIC has taken a number of measures to strengthen its oversight of the risks to the insurance fund posed by the largest institutions, and its key programs have included the Large Insured Depository Institution Program, Dedicated Examiner Program, Shared National Credit Program, and off-site monitoring systems.

Importantly, with respect to the largest institutions, Title II of the Dodd-Frank Act will help address the notion of "Too Big to Fail." The largest institutions will be subjected to the same type of market discipline facing smaller institutions. Title II provides the FDIC authority to wind down systemically important bank holding companies and non-bank financial companies as a companion to the FDIC's authority to resolve insured depository institutions. As noted earlier, the FDIC's new OCFI is now playing a key role in overseeing these activities.

To help the FDIC maintain the viability of the DIF, the OIG's **2013 performance goal** is as follows:

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

## OIG Work in Support of Goal 2

Efforts in this goal area include those in Goal 1, as in helping to ensure safety and soundness in financial institutions, we also help mitigate risks that can ultimately cause losses to the fund.

## Goal 3: Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Consumer protection laws are important safety nets for Americans. The U.S. Congress has long advocated particular protections for consumers in relationships with banks. The following are but a sampling of Acts seeking to protect consumers:

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

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

Currently and going forward, the FDIC will be experiencing and implementing changes related to the Dodd-Frank Act that have direct bearing on consumer protections. The Dodd-Frank Act established a Consumer Financial Protection Bureau (CFPB) within the FRB and transferred to this bureau the FDIC's examination and enforcement responsibilities over most federal consumer financial laws for insured depository institutions with over $10 billion in assets and their insured depository institution affiliates. Also during early 2011, the FDIC established a new Division of Depositor and Consumer Protection, responsible for the Corporation's compliance examination and enforcement program as well as the depositor protection and consumer and community affairs activities that support that program.

Historically, turmoil in the credit and mortgage markets has presented regulators, policymakers, and the financial services industry with serious challenges. The FDIC has been committed to working with the Congress and others to ensure that the banking system remains sound and that the broader financial system is positioned to meet the credit needs of the economy, especially the needs of creditworthy households that may experience distress. Another important priority is financial literacy. The FDIC has promoted expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream. Economic inclusion continues to be a priority for the FDIC Chairman, and a key focus going forward will be on serving the unbanked and underbanked in our country.

Consumers today are also concerned about data security and financial privacy. Banks are increasingly using third-party servicers to provide support for core information and transaction processing functions. The FDIC seeks to ensure that financial institutions protect the privacy and security of information about customers under applicable U.S. laws and regulations.

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

The misuse of the FDIC's name or logo has been identified as a common scheme to defraud consumers. Such misrepresentations have led unsuspecting individuals to invest on the strength of FDIC insurance while misleading them as to the true nature of the investment products being offered. These consumers have lost millions of dollars in the schemes. Investigative work related to such fraudulent schemes is ongoing and will continue. With the help of sophisticated technology, the OIG continues to work with FDIC divisions and other federal agencies to help with the detection of new fraud patterns and combat existing fraud. Coordinating closely with the Corporation and the various U.S. Attorneys' Offices, the OIG helps to sustain public confidence in federal deposit insurance, protect consumers, and maintain goodwill within financial institutions.

To assist the FDIC to protect consumer rights and ensure customer data security and privacy, the OIG's **2013 performance goals** are as follows:

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

## OIG Work in Support of Goal 3

### Compliance Examination Program

The FDIC is responsible for examining the financial institutions it supervises for compliance with fair lending, privacy, and various other consumer protection laws and regulations. The audit is intended to identify opportunities to improve the FDIC's supervisory strategies and practices for promoting compliance with consumer protection laws and regulations. [Audit]

### Coordination and Cooperation with CFPB

This evaluation will focus on FDIC actions and policies that are designed to ensure the FDIC is appropriately coordinating with CFPB. [Evaluation]

### Phishing and Pharming Schemes

Our investigators will continue to work with RMS, the Division of Information Technology (DIT), and the Legal Division to identify phishing, pharming, and other schemes that prey on the public for purposes of fraud, identity theft, or other malicious activity.

### Misrepresentation of FDIC Insurance or Affiliation

We will coordinate with the FDIC with regard to individuals or entities that make false representations regarding FDIC insurance or affiliation and pursue allegations of such activity for possible criminal or administrative action.

### Maintenance of the OIG's Inquiry System

The OIG maintains a tracking system in response to an increase in public inquiries to our office related to FDIC and financial services industry practices and issues. This system incorporates complaints and inquiries received by way of the OIG's Hotline as well. We are providing assistance to the public in resolving such inquiries and referring certain matters to the other FDIC offices or outside regulatory agencies, as appropriate.

## Goal 4: Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failing Banks and Manages Receiverships

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

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

- The **resolution process** involves valuing a failing federally insured depository institution, marketing it, soliciting and accepting bids for the sale of the institution, considering the least costly resolution method, determining which bid to accept and working with the acquiring institution through the closing process.
- The **receivership process** involves performing the closing function at the failed bank; liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims.

The FDIC's resolution and receivership activities pose tremendous challenges. As indicated by earlier trends in mergers and acquisitions, banks over the past years have become more complex, and the industry has consolidated into larger organizations. As a result, the FDIC has been called upon to handle failing institutions with significantly larger numbers of insured deposits than it has dealt with in the past. The sheer volume of all failed institutions, big and small, has posed tremendous challenges and risks to the FDIC.

Perhaps the most fundamental reform under the Dodd-Frank Act is the new resolution authority for large bank holding companies and systemically important non-bank financial companies. The FDIC has historically carried out a prompt and orderly resolution process under its receivership authority for insured banks and thrifts. The Dodd-Frank Act gave the FDIC a similar set of receivership powers to liquidate failed systemically important financial firms. As noted earlier, OCFI is the FDIC office responsible for such activity.

In addition to the future challenges associated with exercising this new resolution authority, the Corporation is currently dealing with a daunting resolution and receivership workload. According to the FDIC, as of year-end 2012, during the crisis 465 institutions failed, with total assets of $680 billion. Estimated losses resulting from the failures total approximately $87 billion. With 651 institutions on the FDIC's "Problem List," more failures could occur and the FDIC's corresponding asset disposition workload would likewise increase.

Franchise marketing activities are at the heart of the FDIC's resolution and receivership work. The FDIC pursues the least costly resolution to the DIF for each failing institution. Each failing institution is subject to the FDIC's franchise marketing process, which includes valuation, marketing, bidding and bid evaluation, and sale components. The FDIC is often able to market institutions such that all deposits, not just insured deposits, are purchased by the acquiring institution, thus avoiding losses to uninsured depositors.

Of special note, through purchase and assumption (P&A) agreements with acquiring institutions, the Corporation has entered into 290 shared-loss agreements (SLA) involving about $212.7 billion in assets. Under these agreements, the FDIC agrees to absorb a portion of the loss—generally 80-95 percent—which may be experienced by the acquiring institution with regard to those assets, for a period of up to 10 years. In addition, the FDIC has entered into 34 structured asset sales to dispose of about $26 billion in assets. Under these arrangements, the FDIC retains a participation interest in future net positive cash flows derived from third-party management of these assets.

Other post-closing asset management activities will continue to require much FDIC attention. FDIC receiverships manage assets from failed institutions, mostly those that are not purchased by acquiring institutions through P&A agreements or involved in structured sales. The FDIC is managing 466 receiverships holding about $17 billion in assets, mostly securities, delinquent commercial real-estate and single-family loans, and participation loans. Post-closing asset managers are responsible for managing many of these assets and rely on receivership assistance contractors to perform day-to-day asset management functions. Since these loans are often sub-performing or nonperforming, workout and asset disposition efforts are more intensive.

The FDIC increased its permanent resolution and receivership staffing and significantly increased its reliance on contractor and term employees to fulfill the critical resolution and receivership responsibilities associated with the ongoing FDIC interest in the assets of failed financial institutions.

As the number of financial institution failures continues to decline, the Corporation is reshaping its workforce and adjusting its budget and resources accordingly. The FDIC closed the West Coast Office and the Midwest Office in January 2012 and September 2012, respectively, and plans to close the East Coast Office in 2014. In this connection, authorized staffing for DRR, in particular, has fallen from a peak of 2,460 in 2010 to 1,463 proposed for 2013, which reflects a reduction of 393 positions from 2012 and 997 positions over 3 years. As for DRR contractor funding, it too has fallen from a peak of $1.34 billion in 2010 to $456.7 million proposed for 2013, a reduction of $318.6 million from 2012 and $884.9

million (66 percent) over 3 years. Still -- the significant surge in failed-bank assets and associated contracting activities will continue to require effective and efficient contractor oversight management and technical monitoring functions.

While OIG audits and evaluations address various aspects of resolution and receivership activities, OIG investigations benefit the Corporation in other ways. For example, in the case of bank closings where fraud is suspected, our Office of Investigations may send case agents and computer forensic special agents from the ECU to the institution. ECU agents use special investigative tools to provide computer forensic support to OIG investigations by obtaining, preserving, and later examining evidence from computers at the bank.

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

To help ensure the FDIC efficiently and effectively resolves failing banks and manages receiverships, the OIG's **2013 performance goals a**re as follows:

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

## OIG Work in Support of Goal 4

### Required FDIC Inspector General Reviews

As necessary, we will comply with the provisions of Title II of the Dodd-Frank Act - Orderly Liquidation Sec 211 Miscellaneous Provisions. We will plan and take steps needed to comply. Specifically, the FDIC IG is required to conduct, supervise, and coordinate audits and investigations of the liquidation of any covered financial company by the Corporation as receiver under this title. This would include collecting and summarizing the following: a description of actions taken by the Corporation as receiver; a description of any material sales, transfers, mergers, obligations, purchases, and other material transactions entered into by the Corporation; an evaluation of the adequacy of the policies and procedures of the Corporation under section 203(d) and an orderly liquidation plan under section 210(n)(14); an evaluation of the utilization by the Corporation of the private sector in carrying out its functions, including the adequacy of any conflict-of-interest reviews; and an evaluation of the overall performance of the Corporation in liquidating the covered financial company, including administrative costs, timeliness of liquidation process, and impact on the financial system.

These reviews must occur not later than 6 months after the date of appointment of the Corporation as receiver under this title and every 6 months thereafter. The

OIG is required to include in the semiannual reports required by the Inspector General Act of 1978 a summary of the findings and evaluations of such reviews and to appear before the appropriate committees of Congress, if requested, to present each such report.

### The FDIC's Identification and Management of Significant and Unique Risks Associated with Resolving Failed Institutions

We plan to review how the FDIC identifies the need for and monitors resolution strategies for significant or unique products and risks. The assignment will identify and assess relevant controls in place for identifying failed institution risks and understand how and when such issues are communicated to FDIC senior management. The evaluation will initially focus on a specific case where undetected errors in documents for a specific loan portfolio of a failed institution created a potential liability for the FDIC. [Evaluation]

### Implementation of Authorities Related to Systemic Resolutions under the Dodd-Frank Act

One of the FDIC's top priorities has been preparing for a resolution of a large SIFI, which involves the largest and most complex bank holding companies and non-bank financial institutions, if necessary, and a requirement for resolution plans for covered financial companies. We plan to assess the risks associated with the FDIC's efforts to implement its new authorities under the Dodd-Frank Act for the orderly liquidation of financial companies. [Audit]

### Enforcement Actions and Professional Liability Claims Against Institution-Affiliated Parties of Failed Institutions

We plan to study the FDIC's efforts to pursue enforcement actions and professional liability claims against directors, officers, and other institution-affiliated parties whose conduct may have contributed to losses at failed FDIC-insured institutions. The FDIC may issue enforcement actions to remove and prohibit individuals from engaging in banking operations, require restitution, and/or impose civil monetary penalties. The FDIC may also pursue professional liability claims against directors, officers, and professionals who worked for the failed bank such as lawyers and accountants. These claims seek recovery for damages caused to failed banks, and such recoveries are used to pay claims against the receivership estate. [Evaluation]

### Individual Shared Loss Agreement

We will conduct a review of one the FDIC's shared-loss agreements with an acquiring institution, yet to be determined, to assess the acquiring institution's compliance with the terms and conditions of the agreement and the FDIC's oversight of the agreement. [Audit]

### Individual Structured Sale Transaction—LLC—Single-Family Residential

We plan to focus this review on a structured sale transaction involving single-family properties. Specifically, we will review SFR Venture 2011-1, Limited Liability Company (LLC), which is managed by MountainView Public Private Investment I, LLC. The Manager is responsible for the day-to-day operations of the LLC and its compliance with the structured transaction agreements. We will engage a contractor to evaluate the LLC's compliance with the agreements, including criteria applicable to consumer protection laws, and key FDIC policies and procedures. [Audit]

### Oversight of the LLC Structured Sale Program

We plan to conduct a high-level review of FDIC's structured transaction program. From May 1, 2008 through December 31, 2012, the FDIC, acting on behalf of failed bank receiverships, completed 34 structured transactions involving 42,900 assets with a total unpaid principal balance of about $26 billion. This evaluation will assess DRR's administration of the program, its oversight efforts, DRR's compliance with its own policies and procedures, and DRR's coordination with other FDIC divisions and offices. [Evaluation]

### Receivership Terminations

Until it is terminated, the receivership continues its existence even though it may hold no assets. A termination is a legal proceeding in which a receivership ceases to exist. Generally, the types of issues that may preclude termination of receivership include any matter that may result in the transfer of unacceptable financial risks and known financial liabilities of a receivership, which would have an adverse impact on the Corporation. We plan to review the FDIC's controls for terminating receiverships to ensure terminations are properly authorized based on a review of receivership records. [Audit]

### Closed Bank Investigations

Our Office of Investigations will conduct investigations of closed banks where fraudulent activity is suspected and aggressively pursue criminal investigations of any fraud that contributed to the institution's failure.

### Computer Forensics Activities

The computer forensics agents from the OIG's Electronic Crimes Unit provide support for closed-bank investigations as well as for open-bank investigations referenced under Goal 1.

### Investigations of Contractor Fraud

We will investigate alleged fraudulent activity on the part of contractors and others doing business with the FDIC in performing resolution and receivership activities.

## Goal 5: FDIC Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

The FDIC must effectively and economically manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, information technology (IT), and physical resources. These resources have been stretched during the past years of the recent crisis, and the Corporation will continue to face challenges as it returns to a steadier state of operations. New responsibilities, reorganizations, and changes in senior leadership and in the makeup of the FDIC Board have affected the FDIC workforce substantially over the past few years. Efforts to promote sound governance and effective stewardship of its core business processes and the IT systems supporting those processes, along with attention to human and physical resources, will be key to the Corporation's success in the months ahead.

As the number of financial institution failures continues to decline, the Corporation is reshaping its workforce and adjusting its budget and resources accordingly. The FDIC closed the West Coast Office and the Midwest Office in January 2012 and September 2012, respectively, and plans to close the East Coast Office in April 2014. In this connection, authorized staffing for DRR, in particular, has fallen from a peak of 2,460 in 2010 to 1,463 proposed for 2013, which reflects a reduction of 393 positions from 2012 and 997 positions over three years. DRR contractor funding also has fallen from a peak of $1.34 billion in 2010 to $456.7 million proposed for 2013, a reduction of $318.6 million from 2012 and $884.9 million (66 percent) over 3 years. Still, the significant surge in failed-bank assets and associated contracting activities will continue to require effective and efficient contractor oversight management and technical monitoring functions.

With the number of troubled FDIC-supervised institutions also on the decline, the FDIC has reduced authorized nonpermanent examination staff as well. Risk management staffing has declined from a peak of 2,237 in 2011 to 1,966 proposed for 2013, a reduction of 271 nonpermanent positions. The number of compliance examination staff as well has begun to decline, though not as much—from a peak of 572 in 2012 to 522 proposed for 2013, a reduction of 50 nonpermanent positions.

To fund operations, the Board of Directors approved a $2.68 billion Corporate Operating Budget for 2013, 18.2 percent lower than the 2012 budget. In conjunction with its approval of the 2013 budget, the Board also approved an authorized 2013 staffing level of 8,026 employees, down from 8,713 previously authorized, a net reduction of 687 positions, with further reductions projected in 2014 and future years. The FDIC's operating expenses are paid from the DIF, and consistent with sound corporate governance principles, the

Corporation's financial management efforts must continuously seek to be efficient and cost-conscious, particularly in a government-wide environment that is facing severe budgetary constraints.

As conditions improve throughout the industry and the economy, the Corporation and staff are adjusting to a new work environment and workplace. The closing of the two temporary offices and the plans for closing the third can disrupt current workplace conditions. These closings can also introduce risks, as workload, responsibilities, and files are transferred and employees depart to take other positions—sometimes external to the FDIC. Fewer risk management and compliance examiners can also pose challenges to the successful accomplishment of the FDIC's examination responsibilities. Further, the ramping up of the new Office of Complex Financial Institutions, with hiring from both internal and external sources will continue to require attention—with respect to on-boarding, training, and retaining staff with requisite skills for the challenging functions of that office. For all employees, in light of a transitioning workplace, the Corporation will seek to sustain its emphasis on fostering employee engagement and morale. Its new Workplace Excellence Program is a step in that direction.

From an IT perspective, amidst the heightened activity in the industry and economy, the FDIC has engaged in in massive amounts of information sharing, both internally and with external partners. This is also true with respect to sharing of highly sensitive information with other members of the Financial Services Oversight Council formed pursuant to the Dodd-Frank Act. As noted earlier with respect to OCFI, FDIC systems contain voluminous amounts of critical data. The Corporation needs to ensure the integrity, availability, and appropriate confidentiality of bank data, personally identifiable information (PII), and other sensitive information in an environment of increasingly sophisticated security threats and global connectivity. In a related vein, continued attention to ensuring the physical security of all FDIC resources is also a priority. The FDIC needs to be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency.

Finally, a key component of corporate governance at the FDIC is the FDIC Board of Directors. With confirmations of the FDIC Chairman and Vice Chairman, along with appointments of others to fill Board positions over the past year, the Board is now operating at full strength. The Board will likely face challenges in leading the organization, accomplishing the Chairman's priorities, and coordinating with the other regulatory agencies on issues of mutual concern and shared responsibility. Enterprise risk management is a related aspect of governance at the FDIC. Notwithstanding a stronger economy and financial services industry, the FDIC's enterprise risk management activities need to be attuned to emerging risks, both internal and external to the FDIC, and the Corporation as a whole needs to be ready to take necessary steps to mitigate those risks as changes occur and challenging scenarios present themselves.

To promote sound governance and effective stewardship and security of human, financial, IT, and physical resources, the OIG's **2013 performance goals** are as follows:

- Evaluate corporate efforts to manage human resources and operations efficiently, effectively, and economically.
- Promote integrity in FDIC internal operations.
- Promote alignment of IT with the FDIC's business goals and objectives.
- Promote IT security measures that ensure the confidentiality, integrity, and availability of corporate information.
- Promote personnel and physical security.
- Promote sound corporate governance and effective risk management and internal control efforts.

## OIG Work in Support of Goal 5

### Managing and Safeguarding Sensitive Information Related to Systemically Important Financial Institutions

In fulfilling its responsibilities under the Dodd-Frank Act, the FDIC collects, analyzes, and maintains sensitive information, such as resolution plans for SIFIs. Effectively managing and safeguarding such information is important to achieving the FDIC's mission of maintaining stability and public confidence in the nation's financial system. The audit is intended to identify potential security control enhancements to mitigate the risk of unauthorized disclosure of sensitive information pertaining to SIFIs. [Audit]

### Federal Information Security Management Act Evaluation

As required by FISMA, we will perform our annual review to determine the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with FISMA and related information security policies, procedures, standards. [Audit]

### Verification of the FDIC's Data Submissions through the Government-wide Financial Report System 2013

As required by the Department of Treasury, we plan to conduct a review to verify whether the FDIC's data submissions through the GFRS for inclusion in the annual Financial Report of the United States Government are consistent with information in the FDIC's general ledger. [Audit]

### IT Project Management

We will assess implementation of IT project management policies, procedures, and practices to assist the FDIC in ensuring that IT projects meet cost, schedule, and requirements expectations. [Evaluation]

### Distributed Information Technology

We plan to assess the extent to which divisions and offices are procuring or developing IT-based solutions to collect and manage information outside the FDIC's IT governance framework (i.e., CIO

Council) and any corresponding risks associated with this practice. [Audit]

### Procurement Card Activity

While not applicable to the FDIC, the Government Charge Card Abuse Prevention Act of 2012 requires agencies that use purchase cards and convenience checks to (among other things) establish safeguards and internal controls to prevent improper use and the recovery of improper purchases. Additionally, the Act requires that the Inspectors General of agencies covered by the Act conduct periodic risk assessments and audits of the agencies' purchase card and convenience check programs. Consistent with the spirit of the Act, the audit is intended to identify potential control improvements related to the FDIC's Procurement Card Program that can mitigate the risk of fraud, waste, abuse, and policy violations. [Audit]

### Travel Card Program

The FDIC has established a Travel Card Program for employees who incur expenses in connection with official travel for the Corporation. The audit is intended to identify potential internal control improvements related to the Travel Card Program that can mitigate the risk of fraud, waste, abuse, and policy violations. [Audit]

### Corrective Action Closure Process

We plan to assess the adequacy of FDIC's corrective action closure process by reviewing a sample of closed OIG recommendations to determine whether management has taken responsive corrective action. [Audit]

### Contractor Billing Reviews

We will perform a billing review for a selected contractor or contractors to determine whether charges paid by the FDIC were adequately supported, allowable under the terms and conditions of the contract, and reasonable. [Audit]

### Regional Operations

We will review FDIC's regional office structure to identify any opportunities to reduce duplication of services and any risks that may exist and warrant further review related to the coordination within and among the regional offices. [Evaluation]

### Transfer of Office of Thrift Supervision (OTS) Staff and Functions to Other Agencies

As required under Title III of the Dodd-Frank Act, we will review jointly with Treasury and Federal Reserve Board IGs the status of the plan to transfer the Office of Thrift Supervision (OTS) functions to the Board, FDIC, and the Office of the Comptroller of the Currency. [Audit]

## Goal 6: OIG Resources Management: Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

While the OIG's audit, evaluation, and investigation work is focused principally on the FDIC's programs and operations, we have an obligation to hold ourselves to the highest standards of performance and conduct. We seek to develop and retain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships with all stakeholders. A major challenge for the OIG has been ensuring that we had the resources needed to effectively and efficiently carry out the OIG mission at the FDIC, given a sharp increase in the OIG's statutorily mandated work brought about by numerous financial institution failures, and in light of the new activities and programs that the FDIC undertook to restore public confidence and stability in the financial system, all of which warrant vigilant, independent oversight.

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

To carry out our responsibilities, the OIG must be professional, independent, objective, fact-based, nonpartisan, fair, and balanced in all its work. Also, the Inspector General (IG) and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. The OIG operates in keeping with the Quality Standards for Federal Offices of Inspector General, as adopted by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Further, the OIG conducts its audit work in accordance with generally accepted Government Auditing Standards promulgated by the U.S. Government Accountability Office (GAO); its evaluations in accordance with CIGIE's Quality Standards for Inspection and Evaluation; and its investigations, which often involve allegations of serious wrongdoing that may involve potential violations of criminal law, in accordance with Quality Standards for Investigations established by CIGIE, and procedures established by the Department of Justice.

Strong working relationships are fundamental to our success. We place a high priority on maintaining positive working relationships with the FDIC Chairman, Vice Chairman, other FDIC Board members, and management officials. The OIG is a regular participant at Audit Committee meetings where recently issued audit and evaluation reports are discussed. Other meetings occur throughout the year as OIG officials meet with division and office leaders and attend and participate in internal FDIC conferences and other forums.

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

The FDIC OIG is a member of CIGIE and fully supports and participates in CIGIE activities. The FDIC IG currently serves as Chair of its Audit Committee. We also coordinate closely with representatives from the other financial regulatory OIGs. In this regard, as noted earlier in this report, the Dodd-Frank Act created the Financial Stability Oversight Council and further established the Council of Inspectors General on Financial Oversight (CIGFO). This Council facilitates sharing of information among CIGFO member IGs and discusses ongoing work of each member IG as it relates to the broader financial sector and ways to improve financial oversight. CIGFO may also convene working groups to evaluate the effectiveness of internal operations of the Financial Stability Oversight Council. The Treasury IG chairs the CIGFO and the FDIC IG is currently serving as Vice Chair.

The IG is a member of the Comptroller General's Yellow Book Advisory Board. Additionally, the OIG meets with representatives of the GAO to coordinate work and minimize duplication of effort and with representatives of the Department of Justice, including the FBI and U.S. Attorneys' Offices, to coordinate our criminal investigative work and pursue matters of mutual interest.

The FDIC OIG has its own strategic and annual planning processes independent of the Corporation's planning process, in keeping with the independent nature of the OIG's core mission. The Government Performance and Results Act of 1993 (GPRA) was enacted to improve the management, effectiveness, and accountability of federal programs. GPRA requires most federal agencies, including the FDIC, to develop a strategic plan that broadly defines the agency's mission and vision, an annual performance plan that translates the vision and goals of the strategic plan into measurable objectives, and an annual performance report that compares actual results against planned goals.

The OIG strongly supports GPRA and is committed to applying its principles of strategic planning and performance measurement and reporting to our operations. The OIG's Business Plan lays the basic foundation for establishing goals, measuring performance, and reporting accomplishments consistent with the principles and concepts of GPRA. We are continuously seeking to better integrate risk management considerations in all aspects of OIG planning—both with respect to external and internal work.

To build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships, the OIG's **2013 performance goals** are as follows:

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

We intend to undertake a number of internal projects in this goal area, some of which will have office-wide impact and others of which pertain more specifically to individual component offices. All of these projects are intended to make our internal operations and activities more efficient, effective, and economical.

# Appendix I: Quantitative Performance Measures and Targets

The table below presents our FY 2013 targets for our quantitative performance measures. To establish targets for these measures, we examined what we have been able to achieve in the past and the external factors that influence our work, such as budgetary resources and staffing levels.

| Performance Measure | FY 2013 Target |
|---|---|
| Financial Benefit Return[1] | **100%** |
| Past Recommendations Implemented[2] | **95%** |
| Complete 100% of audit/evaluation assignments required by statute by the required date. | **100%** |
| Audit/Evaluation Assignments Completed Within 30 days of Established Final Report Milestone | **90%** |
| Audit /Evaluation Assignments Completed Within 15 Percent of Established Budget | **90%** |
| Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case | **85%** |
| Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements | **85%** |
| Closing Reports Issued to Management within 30 days of Completion of all Judicial Actions | **100%** |
| Investigation Actions[3] | **200** |

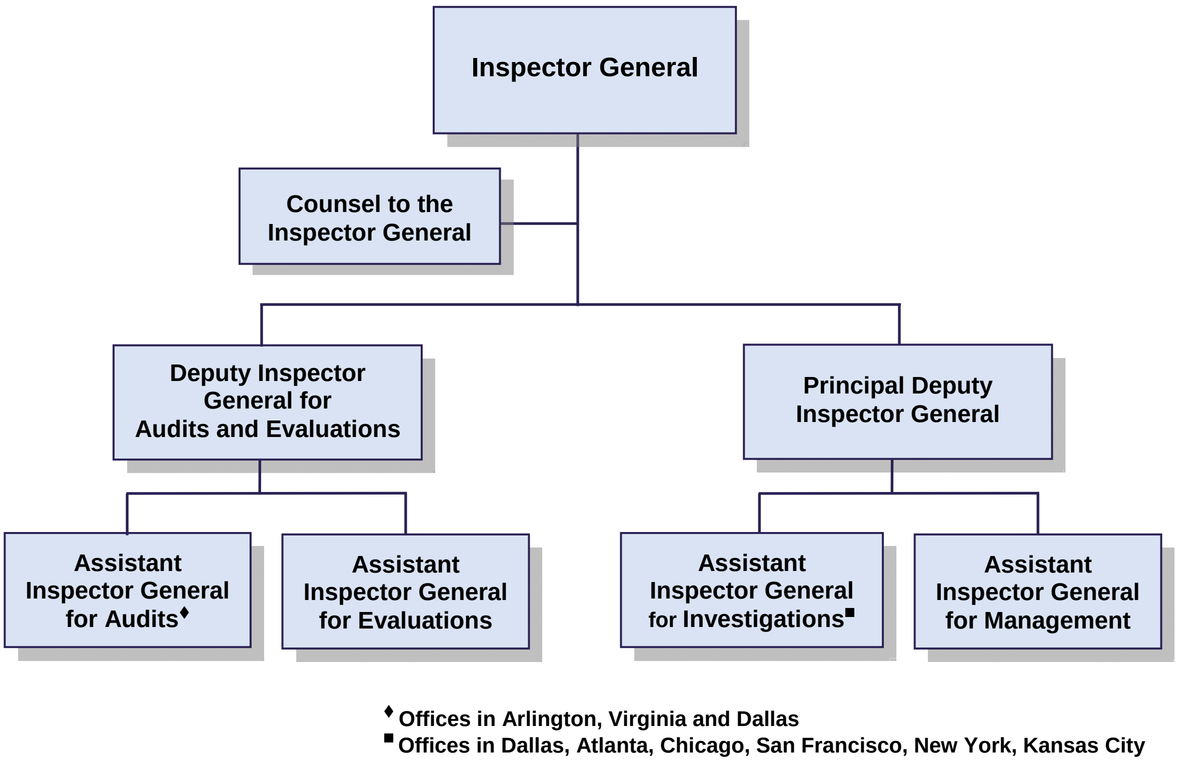
[1] Includes all financial benefits, including audit-related questioned costs; recommendations for better use of funds; and investigative fines, restitution, settlements, and other monetary recoveries divided by OIG's total fiscal year actual budget obligations.

[2] Fiscal year 2011 recommendations implemented by fiscal year-end 2013.

[3] Indictments, convictions, informations, arrests, pre-trial diversions, criminal non-monetary sentencings, monetary actions, employee actions, and other administrative actions.

# Appendix II:
# OIG Organization Structure

The FDIC OIG is comprised of component offices as depicted in the graphic below. A brief description of the duties and responsibilities of each office follows.




## Office of Counsel

The Office of Counsel to the Inspector General is responsible for providing independent legal services to the Inspector General and the managers and staff of the OIG. Its primary function is to provide legal advice and counseling and interpret the authorities of, and laws related to, the OIG. The Counsel's Office also provides legal research and opinions; reviews audit, evaluation, and investigative reports for legal considerations; represents the OIG in personnel-related cases; coordinates the OIG's responses to requests and appeals made pursuant to the Freedom of Information Act and the Privacy Act; prepares Inspector General subpoenas for issuance; and reviews draft FDIC regulations and draft FDIC and OIG policies and proposed or existing legislation, and prepares comments when warranted; and coordinates with the FDIC Legal Division as necessary.

## Office of Audits

The Office of Audits provides the FDIC with professional audit and related services covering the full range of its statutory and regulatory responsibility, including major programs and activities. These audits are designed to promote economy, efficiency, and effectiveness and to prevent fraud, waste, and abuse in corporate programs and operations. This office ensures the compliance of all OIG audit work with applicable audit standards, including those established by the Comptroller General of the United States. It may also conduct external peer reviews of other OIG offices, according to the cycle established by the Council of the Inspectors General on Integrity and Efficiency.

## Office of Evaluations

The Office of Evaluations evaluates, reviews, studies, or analyzes FDIC programs and activities to provide independent, objective information to facilitate FDIC management decision-making and improve operations. Evaluation projects are conducted in accordance with the *Quality Standards for Inspection and Evaluation*. Evaluation projects are generally limited in scope and may be requested by the FDIC Board of Directors, FDIC management, or the Congress.

## Office of Management

The Office of Management is the management operations arm of the OIG with responsibility for providing business support for the OIG, including financial resources, human resources, and IT support; the OIG's internal and external Web sites; internal controls; coordination of OIG reviews of FDIC proposed policy and directives; and OIG policy development.

## Office of Investigations

The Office of Investigations (OI) carries out a comprehensive nationwide program for the prevention, detection, and investigation of criminal or otherwise prohibited activity that may harm or threaten to harm the operations or integrity of the FDIC and its programs. OI maintains close and continuous working relationships with the U.S. Department of Justice; the Federal Bureau of Investigation; other Offices of Inspector General; and federal, state and local law enforcement agencies. OI coordinates closely with the FDIC's Division of Risk Management Supervision in investigating fraud at financial institutions, and collaborates with the Division of Resolutions and Receiverships and the Legal Division in investigations involving failed institutions and fraud by FDIC debtors.

In addition to its headquarters and regional presence, OI operates an ECU and forensic laboratory in Washington, D.C. The ECU is responsible for conducting computer-related investigations impacting the FDIC and providing computer forensic support to OI investigations nationwide. OI also manages the OIG Hotline for employees, contractors, and others to report instances of suspected fraud, waste, abuse, and mismanagement within the FDIC and its contractor operations via a toll-free number or e-mail.

## We're Banking on YOU to Help Us Ensure Integrity

## Report Fraud Waste & Abuse

### What is the OIG Hotline?

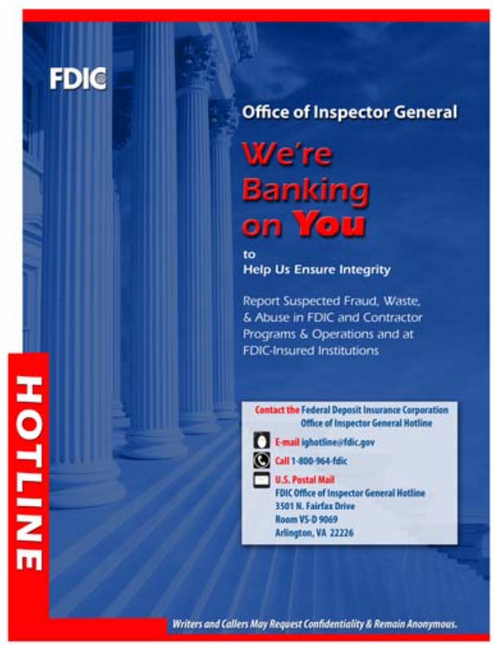
The OIG operates a toll-free, nationwide Hotline (1-800-964-FDIC) to provide a convenient way for FDIC employees, its contractors, and others to report incidents of fraud, waste, abuse, and mismanagement within FDIC and its contractor operations.

### How Do I Report Fraud, Waste, and Abuse?

**Telephone: 1-800-964-FDIC**
**Fax: 1-703-562-6444**

**Write:** Federal Deposit Insurance Corporation
Office of Inspector General: Hotline
3501 Fairfax Drive
Room VS-D-9069
Arlington, VA 22226

**Electronic mail:** ighotline@fdic.gov



Federal Deposit Insurance Corporation

**Office of Inspector General**
**Business Plan**

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**January 2013**