



Office of Inspector General

November 2005
Supplement to Audit Report No. 05-025

Dated July 14, 2005

The FDIC's Investment Policies

This supplement contains copies of correspondence between the Office of Inspector General (OIG) and other corporate officials subsequent to the issuance of Audit Report No. 05-025, dated July 14, 2005. The intent of this supplement is to show resolution of recommendations that were unresolved at the time the OIG issued the final report.

Office of Audits



Table of Contents

- I. **OIG Assessment of the FDIC Chairman's Final Action and DOF Corrective Action**
Memorandum, dated November 8, 2005, from the Assistant Inspector General for Audits to the Chief Financial Officer and Director, Division of Finance

- II. **Report of Final Action of the Audit Follow-up Official**
Memorandum, dated November 3, 2005, from the Chairman, FDIC, to the Deputy Inspector General

**I. OIG Assessment of the FDIC Chairman’s Final Action and
DOF Corrective Action**



DATE: November 9, 2005

MEMORANDUM TO: Steven O. App
Deputy to the Chairman and Chief Financial Officer

Frederick S. Selby, Director
Division of Finance

FROM: Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]
Assistant Inspector General for Audits

SUBJECT: OIG Assessment of Final Action of the FDIC Chairman and DOF
Corrective Action Related to OIG Report Entitled, *The FDIC's
Investment Policies* (Report No. 05-025, dated July 14, 2005)

On October 24, 2005, the Audit Committee heard presentations from the OIG and FDIC management regarding the findings and recommendations contained in the subject audit report. The Committee reached conclusions on the merits of two unresolved and open recommendations and provided its conclusions to Chairman Powell for consideration, in his role of designated "Audit Follow-Up Official" for disputed OIG report findings and recommendations.

With respect to the disputed portion of recommendation 1 – establishing a dollar limit on overnight investment holdings in the Bank Insurance Fund and Savings Association Insurance Fund in excess of the limit requiring approval – the Audit Committee was not persuaded that the additional control was needed. The Chairman concurs and declined to adopt our recommendation. While we continue to assert this control has value, management has given the recommendation sufficient consideration and provided adequate support for its position. Accordingly, we consider the recommendation resolved and closed.

With respect to disputed recommendation 5 – retention of outside experts to conduct periodic reviews – the Audit Committee recommended and the Chairman concurs that such a review would be appropriate and requests that the OIG conduct an independent audit of the corporate investment program every 3 years and include the investment policies applicable to the National Liquidation Fund. We support the FDIC's position and consider the recommendation resolved and closed.

One other recommendation was unresolved at the time we issued our final report. This recommendation concerned comparing the FDIC's short-term market forecast to subsequent movements in yields and actual returns with those of hypothetical portfolios based on rigid investment rules. At a meeting with FDIC representatives subsequent to issuance of our final

report, we were provided additional information concerning fund performance management and reporting. This information, together with the audit results that DOF generally performed well in managing the FDIC investment portfolio, supports the FDIC's position that sufficient action is taken to measure investment returns. As a result, we considered this recommendation resolved and closed prior to the October 24th Audit Committee meeting.

cc: James H. Angel, Jr., OERM

II. Report of Final Action of the Audit Follow-up Official



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Office of the Chairman

November 3, 2005

MEMORANDUM TO: Patricia M. Black
Acting Inspector General

FROM: Donald E. Powell
Chairman

SUBJECT: Report of Final Action of the Audit Follow-Up Official
Audit Report No. 05-025: *The FDIC's Investment Policies*

On October 24, 2005, the Audit Committee met to review the findings and recommendations contained in the above named audit and to deliberate with respect to the two recommendations contained in the audit that are unresolved and remain open. After discussing the issues at length with representatives of the Office of Inspector General ("OIG") and the Deputy to the Chairman and Chief Financial Officer, the Committee formulated recommendations and forwarded them to me for consideration as the FDIC's designated "Audit Follow-Up Official" for disputed OIG report findings and recommendations. After considering all available information provided, I have determined to accept the Audit Committee's recommendations as follows:

- With respect to the disputed portion of OIG recommendation number one -- establishing a dollar limit on overnight investment holdings in the Bank Insurance Fund and Savings Association Insurance Fund -- we are not persuaded that such additional controls are needed. The FDIC therefore declines to adopt the OIG's recommendation to establish a dollar cap.
- With respect to OIG recommendation number five -- retention of outside experts to conduct periodic reviews -- both the OIG and management agree that periodic, independent audits of the Corporate investment program are necessary and useful for sound corporate governance. After carefully deliberating on this issue, the FDIC has determined that an independent review of the Corporate investment program should be undertaken every three years by the OIG. The FDIC has further determined that the review include the investment policies applicable to the National Liquidation Fund.

Accordingly, the FDIC does not concur with OIG recommendation number one (dollar caps) and does concur with OIG recommendation number five (as modified).