FDIC

OIG

Office of Inspector General

Semiannual Report to the Congress

April 1 – September 30, 2013

Including the OIG Performance Report for Fiscal Year 2013

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the nation's banking system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Approximately 7,340 individuals carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured nearly $6 trillion in deposits in 6,891 institutions, of which the FDIC supervised 4,346. As a result of institution failures during the financial crisis, the balance of the Deposit Insurance Fund turned negative during the third quarter of 2009 and hit a low of negative $20.9 billion by the end of that year. The FDIC subsequently adopted a Restoration Plan, and with various assessments imposed over the past few years, along with improved conditions in the industry, the Deposit Insurance Fund balance steadily increased to a positive $40.8 billion as of September 30, 2013. Receiverships under FDIC control as of September 30, 2013 totaled 482, with about $13.8 billion in assets.

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Acting Inspector General's Statement

I am pleased to present the Federal Deposit Insurance Corporation (FDIC) Office of Inspector General's (OIG) semiannual report for the period April 1, 2013 through September 30, 2013. The past 6 months have been eventful for the OIG and have offered learning opportunities and challenges that our office has met head-on. Several highlights from the reporting period follow and are discussed in more detail in our report.

Our investigators, in partnership with the Department of Justice, the United States Attorney's Office for the Eastern District of Virginia, and law enforcement colleagues successfully brought to justice four key figures involved in fraudulent activities contributing to the failure of the Bank of the Commonwealth, the largest bank failure in the state of Virginia, causing a loss of more than $333 million to the Deposit Insurance Fund. In May, after a 10-week trial, a jury returned guilty verdicts against three top executives and a favored borrower of the bank for their roles in a scheme to mask non-performing assets for their own personal benefit and to the detriment of the bank. Later in the reporting period, three of the individuals received sentences ranging from 50 months to 17 years in prison and were ordered to pay millions of dollars in restitution for their criminal behavior.

Our audit organization underwent a peer review conducted by the Department of State OIG during the reporting period. We received a rating of pass, indicating that our system of quality control was suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable standards in all material respects. We are proud of those results and appreciate the Department of State OIG's separate letter with recommendations to further strengthen our system of quality control. Our audit workload during the period included a review of the Corporation's implementation of its new systemic resolution responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act, conducted at the request of FDIC Chairman Gruenberg. We also focused attention on the risks inherent in the Corporation's IT environment, as part of our work under the Federal Information Security Management Act of 2002. Results of both of those efforts will be presented in our next semiannual report.

In June, the FDIC Chairman and a number of senior executives from the FDIC participated at our first OIG-wide conference since 2007. They shared perspectives on the challenges facing individual divisions in the Corporation as well as enterprise-wide concerns, all of which informed our thinking with regard to planning our future assignments in a post-crisis environment. While some risks to the Corporation's success have subsided as the economy has improved, new threats can emerge, and we will factor those issues into our portfolio of work going forward.

At the end of September, Jon T. Rymer was appointed Inspector General (IG) at the Department of Defense. Jon had served the FDIC with distinction since July 2006, and, as further discussed in our farewell to Jon at the end of this report, the OIG values his many contributions to the Corporation, the IG community at large, and our nation. I am proud to take on the leadership of the office now as Acting IG, in

accordance with the Vacancies Reform Act of 1998.

Finally, the OIG was affected by the lapse of funding that caused the government shutdown in early October. Although the Corporation was spared the effects of the funding lapse, as an appropriated entity within the Corporation, the OIG faced 16 days during which all but a few staff members were furloughed. As Acting IG at that time, I appreciated the unwavering commitment of all OIG staff. Their dedication to public service was, and continues to be, inspiring, and we have successfully resumed OIG operations during the past weeks.

I am grateful for the continuing support of OIG staff and FDIC senior leadership and management as I serve as the FDIC's Acting IG. As we approach the coming year, we reaffirm our commitment to the IG mission and look forward to tackling the new challenges that inevitably await us.

Fred W. Gibson, Jr.

Acting Inspector General

October 2013

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The OIG works to achieve five strategic goals that are closely linked to the FDIC's mission, programs, and activities, and one that focuses on the OIG's internal business and management processes. These highlights show our progress in meeting these goals during the reporting period. A summary of our completed work, along with references to selected ongoing assignments is presented below.

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

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. In support of this goal, during the reporting period, the Inspector General testified before the Senate Committee on Banking, Housing, and Urban Affairs on lessons learned from the financial crisis related to community banks. He summarized the findings in our *Comprehensive Study on the Impact of the Failure of Insured Depository Institutions* (EVAL-13-002) and noted that we had made 7 recommendations to strengthen certain supervisory activities and ongoing resolution efforts. We also completed 12 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of less than the threshold of $150 million if failing after January 1, 2012 and determined whether unusual circumstances existed that would warrant an in-depth review in those cases.

Ongoing audit and evaluation work in this goal area at the end of the reporting period included an audit of the FDIC's response to Bank Secrecy Act and anti-money laundering concerns identified at FDIC-supervised institutions and an evaluation of the financial regulatory agencies' programs for pursuing enforcement actions and professional liability claims that we are conducting jointly with other financial regulatory OIGs.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also successfully combated a number of mortgage fraud schemes. Our efforts in support of bank fraud, mortgage fraud, and other financial services working groups also supported this goal. Particularly noteworthy results from our casework include the pleas and sentencings of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failures. For example, in a case involving the largest bank failure in Virginia, following a 10-week trial, three top bank executives and a favored borrower of the Bank of the Commonwealth were found guilty for their roles in a scheme to mask non-performing assets for their own benefit and to the detriment of the bank. Three of the four had received stiff sentences as of the end of the reporting period. The former executive vice president and commercial loan officer was sentenced to 17 years in prison and ordered to pay restitution of nearly $332 million, joint and several with co-conspirators. The Chief Executive Officer's son was sentenced to 8 years in prison and ordered to pay $2.4 million in restitution to the FDIC and forfeit more than $4 million in proceeds from the scheme. The favored borrower, a real estate developer, was sentenced to more than 4 years in prison and ordered to pay restitution to the FDIC of nearly $5 million.

Also of note during the reporting period were several successful mortgage fraud cases. In one case, a realtor was sentenced to 37 months in prison to be followed by 5 years of supervised release and ordered to pay restitution of nearly $6 million. A mortgage broker in another case was sentenced to 12 months in prison, 12 months of home confinement, and ordered to pay nearly $5 million in restitution for her role in defrauding multiple financial institutions.

The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships, and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with RMS and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. We have strengthened our process for regular coordination of enforcement action matters with the Legal Division and RMS, a step that has proven to be mutually beneficial. (See pages 11-22.)

Strategic Goal 2 – Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

We did not conduct specific assignments to address this goal area during the reporting period. However, our audit and evaluation work in support of Goal 1 fully supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the insurance fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses and losses to the Deposit Insurance Fund. (See pages 23-24.)

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

We continued an audit related to the FDIC's actions to address consumer protection violations and deficiencies. Additionally, we are coordinating with OIG counterparts in planning an assignment to examine the progress that the prudential regulators and the Consumer Financial Protection Bureau have made in establishing coordination for the many consumer protection responsibilities that the various parties carry out.

Our Office of Investigations also supports consumer protection through its work. For example, during the reporting period, as a result of an investigation, a Houston businessman pleaded guilty for his role in a fraudulent investment scheme to steal about $1 million from elderly investors. As part of the scheme, his salesmen sold unregistered securities—collateral debt obligations—falsely claiming they were fully insured by either the FDIC or Lloyds of London.

Also of note, our Electronic Crimes Unit responded to instances where fraudulent emails purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. Working with the Corporation's Division of Information Technology, our investigators seek to protect consumers by dismantling such schemes. In further support of consumer protection, the OIG also continued to respond to a number of inquiries from the public, received both through our Hotline and through other channels. We addressed about 180 such inquiries during the past 6-month period. (See pages 25-27.)

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

We completed two assignments in this goal area during the reporting period. That is, we conducted an audit of the Division of Resolutions and Receiverships' resolution planning, determining that the FDIC had established controls to identify and manage risks associated with the resolution of failing depository institutions. We also completed work on a structured sale involving MountainView Public Private Investment I, LLC, and single-family residential assets, wherein we did not identify any issues with regard to complying with the agreement but did recommend actions to enhance MountainView's controls.

We would also note that in connection with the FDIC's new resolution authority for systemically important financial institutions, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires that the FDIC OIG conduct, supervise, and coordinate audits and investigations of the liquidation of any covered financial company by the Corporation as receiver under Title II of the Act. We continued efforts to ensure we are prepared for such an eventuality.

From an investigative standpoint, our Electronic Crimes Unit continued to support investigative activities related to closed banks by providing computer forensic support in ongoing fraud investigations. (See pages 28-31.)

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

In support of this goal area, during the reporting period, we issued the results of our review of the FDIC's compliance with energy management requirements and made eight recommendations to strengthen the FDIC's energy efficiency measures and programs, and its compliance with applicable legislation and reporting requirements. We also completed a review of the FDIC's controls over business-unit led application development activities. In that review, we highlighted risks presented by such activities and made three recommendations to enhance related risk management procedures and information technology (IT) governance processes. In connection with the Dodd-Frank Act,

we issued the results of a sixth coordinated review of the status of the implementation activities of the Joint Implementation Plan prepared by the Board of Governors of the Federal Reserve System, the FDIC, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

At the end of the reporting period, we were undertaking work in the areas of IT project management, controls for safeguarding sensitive information submitted under the Dodd-Frank Act, and our 2013 audit of the FDIC's information security management efforts.

We promoted integrity in FDIC internal operations through ongoing OIG Hotline and other referrals and coordination with the FDIC's divisions and offices, including corporate ethics officials, as warranted. (See pages 32-37.)

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

To ensure effective and efficient management of OIG resources, we continued to focus on a number of internal initiatives. We formed our Workplace Excellence Council, in concert with the FDIC's efforts to promote excellence in all corporate divisions and offices. We closely monitored staffing and tracked OIG spending, particularly costs involved in travel and procurements. We explored options for a better system to capture data on our investigative cases. On an office-wide level, we re-examined and updated our policies and procedures and enhanced our records management and disposition activities. We also provided our Fiscal Year 2014 budget to interested Congressional Committees. This budget reflects $34.6 million to support 130 full-time equivalents, no increase from our Fiscal Year 2013 request.

We continued internal quality assurance efforts, including issuing our audit/evaluation quality assurance plan to cover the period October 2013–March 2016 to ensure quality in all audit and attestation engagement work and evaluations, in keeping with government auditing standards and Quality Standards for Inspection and Evaluation. We also issued our Quality Control Review of the OIG's generally accepted government auditing standards assignments—2012. We oversaw contracts with qualified firms to provide audit and evaluation services to the OIG to supplement our efforts and provide additional subject-matter expertise. We continued use of the Inspector General feedback form for audits and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by supporting individuals in our office pursuing certified public accounting and other professional certifications. Our mentoring program continued to further develop a strong cadre of OIG resources. We supported OIG staff members taking FDIC leadership training courses. We also employed interns on a part-time basis to promote their development and assist us in our work.

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the U.S. Government Accountability Office (GAO). The Inspector General served in key leadership roles as the Chair of the Council of the Inspectors General on Integrity and Efficiency Audit Committee; Vice Chair of the Council of Inspectors General on Financial Oversight, as established by the Dodd-Frank Act; as a Member of the Comptroller General's Advisory Council on Government Auditing Standards, and as Chair of the Green Book Advisory Council. Senior OIG executives were speakers at a number of professional organization and government forums, for example those sponsored by the Federal Financial Institutions Examination Council, Department of Justice, American Conference Institute, Federal Audit Executive Council, GAO, and American Institute of Certified Public Accountants. The OIG participated in corporate diversity events and on the Chairman's Diversity Advisory Council. We continued to use our public inquiry intake system to handle communications with the public and maintained and updated the OIG Web site to respond to the public and provide easily accessible information to stakeholders interested in our office and the results of our work.

In the area of risk management, in connection with SAS 99 and the annual audit of the FDIC's financial statements, we provided preliminary

thoughts on the risk of fraud at the FDIC to GAO. We gathered information for the OIG's annual assurance statement to the FDIC Chairman regarding our efforts to meet internal control requirements. We invited leadership of the FDIC's driver divisions to speak at an OIG conference to share their perspectives on key risks and also attended meetings of various corporate committees to further monitor risks at the Corporation and tailor OIG work accordingly. We shared OIG perspectives on risk areas with senior FDIC leadership. In keeping with the Reports Consolidation Act of 2000, we monitored areas that we identified as management and performance challenges facing the Corporation for inclusion in its annual report. (See pages 38-44.)

Significant Outcomes (April 1, 2013 – September 30, 2013)	
Audit and Evaluation Reports Issued	5
Questioned Costs	0
Nonmonetary Recommendations	15
Investigations Opened	27
Investigations Closed	31
OIG Subpoenas Issued	14
Judicial Actions	
Indictments/Informations	85
Convictions	73
Arrests	28
OIG Investigations Resulted in:	
Fines of	$17,000
Restitution of	497,218,409
Asset Forfeitures of	6,780,660
Total	**$504,016,069**
Cases Referred to the Department of Justice (U.S. Attorneys)	27
Cases Referred to FDIC Management	1
Proposed Regulations and Legislation Reviewed	6
Proposed FDIC Policies Reviewed	8
Responses to Requests Under the Freedom of Information Act or Privacy Act	7

Strategic Goal 1:
The OIG Will Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. The FDIC is the primary federal regulator for approximately 4,346 FDIC-insured, state-chartered institutions that are not members of the Board of Governors of the Federal Reserve System (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 supervised other banks and thrifts, depending on the institution's charter. The winding down of the OTS under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) resulted in the transfer of supervisory responsibility for about 60 state-chartered savings associations to the FDIC. 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 2,545 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 April 2013, the monitoring (Oversight and Risk Analytics Branches) function for systemically important financial institutions (SIFIs) within the Office of Complex Financial Institutions (OCFI) was transferred to RMS and renamed as the Complex Financial Institutions (CFI) Group (RMS-CFI Group). According to RMS, the institutional knowledge and analysis associated with the RMS-CFI Group are relevant to OCFI's 165(d) plan reviews, orderly liquidation, and international functions; thus, collaboration across OCFI and the RMS-CFI Group will continue in order to further integrate these functions going forward. The RMS-CFI Group is primarily responsible for monitoring risk within and across large, complex financial companies for back-up supervisory and resolution readiness purposes.

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 incurred a material loss. Under the FDI Act, a loss was considered material to the insurance fund if it exceeded the greater of $25 million or 2 percent of the failed institution's total assets. With passage of the Dodd-Frank Act, the loss threshold was increased to $200 million for losses that occurred January 1, 2010 through December 31, 2011, $150 million for losses that

occur for the period January 1, 2012 through December 31, 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 and evaluate the supervision of the federal regulatory agency (including compliance with the Prompt Corrective Action requirements of the FDI Act), and generally propose recommendations to prevent future failures. Importantly, under the Dodd-Frank Act, the OIG is now required to review all losses incurred by the DIF under the thresholds 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 of the loss. Although the number of failures continues to decline, the OIG will conduct and report on material loss reviews and in-depth reviews of failed FDIC-supervised institutions, as warranted, and continues to review all failures of FDIC-supervised institutions for any unusual circumstances.

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 bank fraud. OIG investigative efforts are concentrated on those cases of most significance or potential impact to the FDIC and its programs. The goal, in part, is to bring a halt to the fraudulent conduct under investigation, protect the FDIC and other victims from further harm, and assist the FDIC in recovery of its losses. Pursuing appropriate criminal penalties not only serves to punish the offender but can also deter others from participating in similar crimes. Our criminal investigations can also be of benefit to the FDIC in pursuing enforcement actions to prohibit offenders from continued participation in the banking system. When investigating instances of financial institution fraud, the OIG also defends the vitality of the FDIC's examination program by investigating associated allegations or instances of criminal obstruction of bank examinations and by working with U.S. Attorneys' Offices to bring these cases to justice.

The OIG's investigations of financial institution fraud 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. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, when possible, the OIG engages in industry and other professional outreach efforts to keep financial institutions and others informed on fraud-related issues and to educate them 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** were 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

In support of this goal, the Inspector General (IG) testified before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, regarding lessons learned during the crisis. Our office also continued the legislatively mandated review of all failed FDIC-regulated institutions causing losses to the DIF of less than the threshold outlined in the Dodd-Frank Act to

determine whether circumstances surrounding the failures would warrant further review. These assignments are discussed below.

From an investigative perspective, in support of ensuring the safety and soundness of the nation's banks, we have pursued cases involving fraud in both open and closed institutions. Results of such selected cases are also described below. As in the past, we also discuss several of our mortgage-fraud related investigations. Importantly, our results would not be possible without the collaboration and assistance of our colleagues at the FDIC and our law enforcement partners throughout the country.

IG Testimony on Lessons Learned for Community Banks

On June 13, 2013, the IG testified before the Senate Committee on Banking, Housing, and Urban Affairs on the lessons learned from the financial crisis related to community banks. His testimony focused on the broad and comprehensive study, required by Public Law 112-88, that our office conducted on the impact of the failure of insured depository institutions during the recent financial crisis (*Comprehensive Study on the Impact of the Failure of Insured Depository Institutions* (Report No. EVAL-13-002, dated January 3, 2013)).

In summarizing the work that we had done, the IG testified that while the regulators generally implemented their policies appropriately, our study identified certain areas for improvement and issues warranting management attention. The IG noted that in the interest of strengthening the effectiveness of certain supervisory activities and helping ensure the success of the FDIC's ongoing resolution efforts, we had made seven recommendations. Five were addressed specifically to the FDIC and two were directed to the three regulators (OCC, FRB, FDIC). The regulators concurred with the recommendations and proposed actions that adequately addressed the recommendations' intent. The recommendations involved the following areas:

- **Shared-Loss Agreement Program.** We made recommendations related to developing additional controls for monitoring acquiring institutions' commercial loan modification efforts and developing a more formal strategy for mitigating the impact of impending portfolio sales and shared-loss agreement terminations on the DIF.
- **Appraisals and Workouts**. We made several recommendations related to clarifying how examiners should review institutions' appraisal programs and strengthening examiner documentation requirements to more clearly define examination methodologies and procedures performed to assess institutions' appraisal and workout programs. These recommendations should help to assure agency management that examiners are consistently applying relevant guidance.
- **Enforcement Orders.** We recommended that the regulators study differences between the types of enforcement actions that are used by the regulators and the timing of such actions to determine whether there are certain approaches that have proven to be more effective in mitigating risk and correcting deficiencies that should be implemented by all three regulators.

Failed Bank-Related Work

To a far lesser extent than during the height of the financial crisis, we continued to conduct reviews of failed FDIC-supervised institutions. We did not conduct any material loss reviews during the reporting period–that is, reviews of institutions causing material losses to the DIF, as defined by the Dodd-Frank Act. We did, however, complete 12 failed bank reviews of failed institutions with losses to the DIF of less than the threshold outlined in the Dodd-Frank Act. These reviews are listed in appendix 2. None of these reviews identified unusual circumstances warranting additional OIG work.

Successful OIG Investigations Uncover Financial Institution Fraud

As mentioned previously, the OIG's Office of Investigations' work focuses largely on fraud that occurs at or impacts financial institutions. The perpetrators of such crimes can be those

very individuals entrusted with governance responsibilities at the institutions—directors and bank officers. In other cases, individuals providing professional services to the banks, others working inside the bank, and customers themselves are principals in fraudulent schemes.

The cases discussed below are illustrative of some of the OIG's most important investigative success during the reporting period. These cases reflect the cooperative efforts of OIG investigators, FDIC divisions and offices, U.S. Attorneys' Offices, and others in the law enforcement community throughout the country.

A number of our cases during the reporting period involve bank fraud, wire fraud, embezzlement, and mortgage fraud. Many involve former senior-level officials and customers at financial institutions who exploited internal control weaknesses and whose fraudulent activities harmed the viability of the institutions and ultimately contributed to losses to the DIF. The OIG's success in all such investigations contributes to ensuring the continued safety and soundness of the nation's banks.

Successful Bank Fraud Cases

Bank of the Commonwealth Executives and Borrower Convicted and Sentenced

On May 24, 2013, following a 10-week trial, a jury returned guilty verdicts against three top executives and a favored borrower of the Bank of the Commonwealth (BOC) Norfolk, Virginia, for their roles in a scheme to mask non-performing assets for their own personal benefit and to the detriment of BOC. This long-running scheme contributed to the failure of BOC on September 23, 2011, the largest bank failure in the state of Virginia, causing a loss to the DIF of $333 million to date. Verdicts were as follows:

- BOC's chief executive officer (CEO) and chairman of the Board for more than 3 decades, was convicted of conspiracy to commit bank fraud, bank fraud, false entry in a bank record, unlawful participation in a loan, and false statement to a financial institution.
- BOC's executive vice president and commercial loan officer until he was terminated in December 2010, was convicted of conspiracy to commit bank fraud, false entry in a bank record, making a false statement to a financial institution, and misapplication of bank funds.
- The CEO's son, who was employed by a wholly-owned BOC subsidiary as a vice president and mortgage loan specialist until he was terminated in January 2011, was convicted of conspiracy to commit bank fraud and unlawful participation in a loan.
- One of the bank's favored borrowers, who owned and operated a residential and commercial development company as well as an employment staffing company, was convicted of conspiracy to commit bank fraud, misapplication of bank funds, and making a false statement to a financial institution.
- A fifth defendant, former BOC executive vice president and chief lending officer, was acquitted of all charges.

To explain the nature of the scheme–in 2006, leaders at BOC began an aggressive expansion beyond the bank's traditional focus on Norfolk and Virginia Beach to include branches in northeastern North Carolina and the Outer Banks. By December 2009, the bank's assets reached approximately $1.3 billion, built largely through brokered deposits. Evidence at trial disclosed that many of BOC's loans were funded and administered without regard to industry standards or the bank's own internal controls, and by 2008, the volume of the bank's troubled loans and foreclosed real estate soared. From 2008 through 2011, bank insiders masked the bank's true financial condition out of fear that the bank's declining health would negatively impact investor and customer confidence and affect the bank's ability to accept and renew brokered deposits.

To fraudulently hide the bank's troubled assets, bank insiders overdrew demand deposit accounts to make loan payments, used funds

from related entities–at times without authorization from the borrower–to make loan payments, used change-in-terms agreements to make loans appear current, and extended new loans or additional principal on existing loans to cover payment shortfalls. In addition, the bank insiders provided preferential financing to troubled borrowers to purchase bank-owned properties. These troubled borrowers were already having difficulty making payments on their existing loans; however, the financing allowed the bank to convert a non-earning asset into an earning asset, and the troubled borrowers obtained cash at closing to make payments on their other loans at the bank or for their own personal purposes.

The troubled borrowers purchased or attempted to purchase property owned by bank insiders and the bank CEO's son. These real estate loans were fraudulently funded by the bank. The evidence also established that in late 2008, the CEO caused BOC to pay approximately $100,000 in fraudulent invoices purportedly for BOC's Suffolk, Virginia branch when, in fact, they were for renovations at the personal residence of the CEO's son.

With regard to the guilty verdict involving the favored borrower, the evidence presented at trial demonstrated that the developer, as president of Tivest Development & Construction, LLC, and other corporate entities, conspired with numerous BOC insiders to engage in an illegal reciprocal relationship where he performed favors to mask the bank's loan losses in exchange for preferential treatment. For example, at the request of BOC insiders and to prevent losses related to a failing loan, he arranged for Tivest to purchase a construction project in Virginia Beach, Virginia. The bank gave Tivest a $4.1 million loan to purchase and renovate this property. During the funding of this loan, the developer caused fraudulent construction draws to be submitted to the bank, which certain bank insiders funded without inspecting whether the developer had completed the work. In one draw request, he requested monies for a "final clean" when the project stood as an empty shell wrapped in building wrap. He used construction loan proceeds to make payments on his other loans at the bank, support his staffing company, Genesis Staffing, obtain thousands of dollars in cash, make political donations, and make charitable contributions.

In exchange for performing this favor, the management of the bank allowed him to amass large overdrafts without question, have easy access to millions in loans, and gave his company thousands of dollars to work on bank-owned property. As a result, he was able to prop up his failing businesses and portray himself as an upstanding, effective business leader. While engaged in the fraud, he was also attempting to convince the Norfolk City Council to allow him to build a multi-million dollar office building in the heart of Norfolk.

Later in the reporting period, several of the defendants in this case were sentenced:

- On September 16, 2013, the former executive vice president and commercial loan officer was sentenced to serve 17 years in prison to be followed by 5 years of supervised release. He was also ordered to pay restitution of $331,860,955 joint and several with his co-conspirators.
- The favored borrower, the real estate developer, was sentenced on September 18, 2013 to serve 50 months in prison to be followed by 5 years of supervised release for conspiracy to commit bank fraud, bank fraud, and making false statements to a financial institution. He was also ordered to pay restitution to the FDIC in the amount of $4,987,464.
- On September 30, 2013, the CEO's son was sentenced to 8 years in prison, to be followed by 5 years of supervised release. He was also ordered to pay $2.4 million in restitution to the FDIC and forfeit more than $4 million in proceeds from the scheme.

Source: *Request for assistance from the U.S. Attorney's Office for the Eastern District of Virginia.* ***Responsible Agencies:*** *This investigation is being conducted by the Federal Bureau of Investigation's (FBI) Norfolk Field Office, Internal Revenue Service-Criminal Investigation Division (IRS-CI), the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), FDIC OIG, and FRB OIG. The case is being prosecuted by the U.S. Attorney's Office for the Eastern District of Virginia.*

Hotel Financier Enters Guilty Plea in Bank Fraud Case Involving Integrity Bank, Alpharetta, Georgia

On July 1, 2013, a hotel financier pleaded guilty to conspiracy to commit bank fraud for his role in a scheme to defraud Integrity Bank, Alpharetta, Georgia. The financier, along with two former bank officers, were previously charged in a $30 million, 51-count indictment that included charges of bank fraud, receiving commissions or gifts for procuring loans, securities fraud, structuring deposits, and conspiracy to commit bank fraud. The two former bank executives have both pleaded guilty for their roles in the conspiracy. Integrity Bank failed on August 29, 2008. The hotel financier's sentencing hearing was scheduled for October 2013.

According to the charges and other information presented in court, the hotel financier borrowed more than $40 million from the now-failed Integrity Bank in 2005 and 2006, allegedly to finance his interests in various hotels around the country. One of these loans was to acquire and renovate the Casa Madrona Hotel, a luxury property overlooking the water in Sausalito, California. During that time, the financier was bribing one of the former bank executives, a former loan officer at Integrity, with hundreds of thousands of dollars. Although the financier did use some of the money he received from Integrity for hotel purposes, he never performed any renovations on the Casa Madrona. Instead, he used loan draws to buy a private island in the Bahamas; travel by private jet; and pay for Miami Heat tickets, fancy jewelry, expensive cars, and a mansion in Coconut Grove. The financier, the bank's largest borrower, eventually defaulted on his loans, contributing to Integrity Bank's failure. The former loan officer previously pleaded guilty to conspiracy and tax evasion. Another Integrity bank official pleaded guilty to securities fraud.

Source: *The investigation was initiated based upon information received from the FDIC RMS.* ***Responsible Agencies:*** *This is a joint investigation with the FBI. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.*

Bank Senior Vice President Sentenced

On April 5, 2013, a former senior vice president of Appalachian Community Bank, Ellijay, Georgia, was sentenced for his role in a number of schemes to defraud the bank. He was sentenced to serve 70 months in prison to be followed by 5 years of supervised release and was ordered to pay restitution of $5,840,517. Previously, on August 22, 2012, he had pleaded guilty to one count of conspiracy to commit bank fraud. Appalachian failed on March 19, 2010.

The senior vice president admitted that he conspired with the former Appalachian CEO/president and others to arrange sham real estate transactions involving foreclosed property owned by Appalachian. Prior to an FDIC examination in August 2009, the two created two shell companies for the sole purpose of hiding approximately $3.7 million worth of Appalachian-owned real estate. GPH Investments, LLC, purchased 11 properties from Appalachian; 90 percent of the purchase price came from Appalachian. At the same time, PHL Investments, LLC, received a line of credit which accounted for the 10-percent down payment, causing Appalachian to finance 100 percent of the GPH purchase. The sham transactions were designed to make it appear to FDIC examiners that these new loans were legitimate and performing.

Also, in April, 2009, the two former bank executives conspired to use shell corporations to purchase two condominiums in Panama City, Florida. They caused Appalachian to finance the original purchase price of $566,000. Approximately 2 months later, they refinanced the condominiums with Appalachian and received approximately $875,000, which was used to service the original debt.

Finally, the former senior vice president and other co-conspirators created Soak Creek Partners, LLC (Soak Creek) for the sole purpose of buying and flipping property. In March, 2007, the former senior vice president caused Appalachian to extend three $100,000 loans to a silent partner of Soak Creek. He failed to report to the loan committee that the actual purpose of

these three loans was to fund the down payment of approximately 5,000 acres in Tennessee. In April 2007, he caused Appalachian to wire $7.2 million in the name of Soak Creek to a Tennessee law firm that closed the purchase of the 5,000 acres; this wire transfer caused the Soak Creek account to be overdrawn by $7.2 million. Approximately 4 days later, Soak Creek sold the 5,000 acres to a Texas investment company for approximately $9.3 million, netting the former senior vice president a profit of approximately $2 million on the transaction. In September 2007, he caused Appalachian to wire transfer approximately $3 million in the name of Soak Creek to a Tennessee law firm to fund the purchase of another 2,100-acre tract in Tennessee. The wire transfer caused Soak Creek's account to be overdrawn by approximately $3 million. On the same day, Soak Creek sold the 2,100-acre tract to a Texas investment company for approximately $3.7 million. The former senior vice president realized a profit of approximately $500,000 from that sale.

Source: *This case was initiated based on a referral from the FBI, Gainesville Resident Office.* ***Responsible Agencies:*** *This is a joint investigation by the FDIC OIG, SIGTARP, Federal Housing Finance Agency OIG, and the FBI. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.*

Multiple Guilty Pleas in a Case Involving the Bank of Asheville and Pisgah Community Bank, Both in Asheville, North Carolina

During the reporting period, two real estate developers, the former president of Pisgah Community Bank, a real estate appraiser, and a certified public accountant all pleaded guilty for their roles in a case involving fraud at the Bank of Asheville and Pisagh Community Bank, both located in Asheville, North Carolina. Their scheme involved funding the ailing Seven Falls Golf and River Club Development in Hendersonville, North Carolina, a property owned by another developer who was scheduled for trial in October 2013.

Seven Falls was a residential development that this latter developer had purchased in 2006 with a $25 million loan from the National Bank of South Carolina. In 2007, he sold approximately 70 lots in Seven Falls for between $250,000 and $650,000 each. By 2008, he began running out of money and needed a new source of funds. The developer had numerous outstanding loans from the Bank of Asheville, and he was near his statutory lending limit with the bank. From 2008 through 2010, he and two other developers, along with other co-conspirators, developed the so-called Lot Loan Program and other schemes whereby they recruited straw borrowers to purchase lots and other various properties via bank loans, the proceeds of which would be turned over to the conspirators. Most of the loans were from the Bank of Asheville and Pisgah Community Bank.

A bank insider, the former president of Pisgah Community Bank facilitated the approval of loans to the developers, concealing the true risk of the Seven Falls-related loans from the bank's shareholders, auditors, and regulators. A real estate appraiser involved in the scheme prepared appraisal reports that included unsubstantiated inflated assessments, false statements, and willfully omitted material facts—all to inflate the value of the property at Seven Falls, thereby misrepresenting collateral value to the banks. The certified public accountant involved produced financial statements for borrowers that contained false information. He also promoted Seven Falls and guaranteed millions of dollars in loans.

The aggregate fraud, which exceeded $23 million, significantly contributed to the failures of the two banks involved.

Source: *This investigation was initiated based on information provided by the FDIC and the North Carolina Commissioner of Banks.* ***Responsible Agencies:*** *This is a joint investigation by the FBI, IRS-CI, and FDIC OIG. The case is being prosecuted by the U.S. Attorney's Office for the Western District of North Carolina.*

Chicago Developer Sentenced for Bank Fraud

On June 13, 2013, a commercial real estate developer was sentenced for his role in a commercial bank fraud scheme through which he and a co-conspirator knowingly defrauded CIB Bank, Hillside, Illinois. The developer was sentenced to serve 24 months in prison,

to be followed by 60 months of supervised release and was ordered to pay $48.8 million in restitution. CIB Bank, regulated by the FDIC, became severely undercapitalized due in part to the losses incurred from this scheme. It merged into and subsequently operated as part of First Bank, Creve Coeur, Missouri, an FRB-regulated financial institution.

The investigation was initiated based on information provided by RMS. The investigation determined that the two co-conspirators obtained acquisition financing and renovation financing loans through CIB Bank for two commercial buildings in Chicago, Illinois. False representations were made to CIB Bank by both individuals regarding capital contribution requirements. They were required to contribute approximately $12 million to the projects and presented documents to the bank indicating they had satisfied the requirement. However, the documents were fabricated, and the bank, as a result, provided nearly 100-percent financing.

The two men continued to make fraudulent representations on draw requests for renovations to one of the properties. They indicated that they incurred costs associated with asbestos abatement, interior demolition, exterior masonry cleaning, scaffolding for masonry repair and replacement, and exterior stone restoration totaling in excess of $5.1 million, when the actual cost incurred was less than $900,000. CIB Bank's loss was approximately $48.8 million as a result of the two loans. While the real estate developer has been sentenced, his co-conspirator is a fugitive believed to be living in Cali, Columbia.

Source: *FDIC RMS.* ***Responsible Agencies:*** *This is a joint investigation by the FDIC OIG and the IRS-CI. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Illinois.*

Utah Real Estate Developer Sentenced

On September 4, 2013, a Utah real estate developer was sentenced to serve 12 months and 1 day in prison to be followed by 36 months of supervised release. He was also ordered to pay restitution of $7 million to the FDIC as Receiver for ANB Financial, N.A. (ANB). ANB was an institution regulated by OCC that closed on May 9, 2008. The real estate developer had previously pleaded guilty to wire fraud and money laundering.

In December 2006, the developer and another individual, doing business as Spyglass Properties and Tradewest Development, obtained an $18.4 million construction loan from ANB to purchase a 2-acre parcel of land and build an 82-unit condominium complex in Salt Lake City, Utah. In connection with the loan application, they submitted 11 condominium purchase reservation agreements to ANB that stated the signers intended to purchase a condominium, when in fact these individuals did not intend to purchase these condominiums. Loan proceeds were diverted and used to purchase vehicles and real estate, and to complete other projects unrelated to the ANB loan.

Source: *FDIC Division of Resolutions and Receiverships.* ***Responsible Agencies:*** *This was a joint investigation by the FDIC OIG and the FBI. The case is being prosecuted by the U.S. Attorney's Office for the District of Utah.*

Washington Banker Pleads Guilty to Lying to Regulators

On August 21, 2013, the former chairman and CEO of Summit Bank, Burlington, Washington, pleaded guilty to one count of making a false entry in a report of an insured bank. The former chairman and CEO, along with his son, was charged in a criminal Information on August 15, 2013. Summit failed on May 20, 2011.

Summit Bank was a family-owned community bank in Skagit County, Washington, run by the former chairman and CEO and his son, who was the bank's president from 2005 to April 2011. Summit Bank began running into difficulties when the economy and real estate market took a downturn in 2008, resulting in many borrowers becoming delinquent in their loan payments. In order to disguise the true amount of the past-due loans from regulators, the father and son orchestrated multiple schemes to make the loans appear to be current so that they did not have to be reported on the quarterly Call Reports used by regulators to monitor the health and soundness of banks. The methods they used to make loans appear to be current at the end of each reporting period included overdrawing borrowers' checking

and savings accounts to make loan payments, granting change-in-terms agreements on past-due loans to extend payments, giving nominee loans to family members with the proceeds going towards past-due loan payments, taking collateral for other loans and using it to make loan payments on the past-due loans, taking payments intended for other loans and misapplying them to the past-due loans, advancing on other loans to make the payments on the past-due loans, and lying to the Board of Directors about the true payment history of past-due loans in order to get change-in-terms agreements approved. Many of these schemes were carried out without the knowledge or consent of the borrowers.

As part of a civil enforcement agreement entered with the FDIC, which is incorporated into the plea agreement, the former chairman and CEO will pay $300,000 to the FDIC and agree to a lifetime prohibition from participating in the conduct of the affairs of any federally insured financial institution.

Source: *This investigation was initiated based on information provided by the FDIC Legal Division's Enforcement Section and RMS.* ***Responsible Agencies:*** *This investigation was conducted by the FDIC OIG and the FBI. This case is being prosecuted by the U.S. Attorney's Office for the Western District of Washington at Seattle.*

Bank Officer Sentenced for Bank Fraud

On August 23, 2013, a former bank officer was sentenced for bank fraud. The fraud relates to providing false information on loans he originated and for receiving proceeds from the loans. He was sentenced to serve 28 months in prison to be followed by 36 months of supervised release. He was also ordered to pay restitution of $1,081,553. Multiple banks were affected by the fraud, and the bank officer had worked for each of them at different times during his career.

Between March 2005 and December 2009, he approved loans and increases in loans for family members without disclosing the relationships to the banks. It was a further part of the scheme that he entered into agreements with the family member borrowers and other borrowers so that in exchange for the loans, they would provide him with some of the loan proceeds; these agreements were not disclosed to the banks. The bank officer then used the proceeds he received from the borrowers for his own purposes. Further, he disguised the loans as commercial loans to avoid limitations the banks had placed on the types and amounts of loans he could approve.

Responsible Agencies: *This is an investigation by the FDIC OIG. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Illinois, Western Division.*

OIG Mortgage Fraud Cases

Our office has successfully investigated a number of mortgage fraud cases over the past 6 months, several of which are described below. Perpetrators of these mortgage schemes are receiving stiff penalties and restitution orders. Our involvement in such cases is often the result of our participation in a growing number of mortgage fraud task forces. Mortgage fraud took on new characteristics in the recent economic crisis as perpetrators tried to take advantage of an already bad situation. Such illegal activity can cause financial ruin to homeowners and local communities. It can further impact local housing markets and the economy at large. Mortgage fraud can take a variety of forms and involve multiple individuals. The following examples illustrate the nature of these fraudulent activities and the investigations we undertake to stop them.

Prison Sentence in Mortgage Fraud Case

On August 27, 2013, a Maryland realtor was sentenced to serve 37 months in prison to be followed by 5 years of supervised release for his role in a mortgage fraud scheme involving losses of at least $5 million. He was also ordered to pay restitution of $5,950,000.

The realtor and another co-conspirator used loan officers at Resource Mortgage, Pinnacle Finance, and Newgate Mortgage to obtain loans for their straw buyers featuring 100-percent financing and no down payment. Resource Mortgage of Maryland is a former subsidiary of Fulton Bank, NA. Resource Mortgage was responsible for the origination of mortgage loans that were then sold to institutions including IndyMac, SunTrust, and Wells Fargo.

Our investigation disclosed that the realtor approached a number of straw buyers and told them about a real estate investment opportunity that only required good credit. The straw buyers would purchase properties at the realtor's direction with no intent of occupying the properties. The realtor offered to manage the properties as rentals and promised to use the rent money to make mortgage payments. Many of the straw buyers purchased multiple properties. The straw buyers all claim to have provided the realtor with accurate information regarding their employment and assets, but the loan applications all contain false information. The properties were all purchased as primary residences to take advantage of 100-percent financing and no down payment programs offered by the lenders. The loan files all contained some combination of inflated income, false employment, false bank statements, false W-2s and paystubs, and forged signatures.

In all, the realtor and others involved in the scheme recruited approximately 30 straw buyers, arranged more than 50 real estate transactions, caused more than $5.9 million in losses to financial institutions, took in excess of $333,000 in real estate commissions, and collected over $1.2 million in extra money from the transactions in the form of payments for renovations that were never completed.

Source: *This investigation was initiated based on a request for assistance from the United States Secret Service, Washington Field Office, Washington, DC, and the Criminal Investigation Division of the Maryland Attorney General's Office.* ***Responsible Agencies:*** *This is a joint investigation with the United States Secret Service, the Criminal Investigation Division of the Maryland Attorney General's Office, and the FDIC OIG. This case is being prosecuted by the U.S. Attorney's Office for the District of Maryland, Greenbelt, Maryland.*

Mortgage Broker Sentenced for Mail Fraud

On June 17, 2013, a mortgage broker was sentenced for a mail fraud conviction and her role in a mortgage fraud scheme. The broker was sentenced to serve 12 months in prison to be followed by 12 months of home confinement. The broker was also ordered to pay restitution of $4,996,276 to be distributed as follows: $2,798,359 to the FDIC, $412,650 to Accredited Home Lenders, Inc., $574,885 to Aegis Mortgage, $1,035,288 to Maribella, and $175,094 to People's Choice. The restitution order is joint and several with her co-conspirators. Washington Mutual Bank and Fremont Investment & Loan were among the financial institutions that were victims of the scheme.

The mortgage broker conspired with two real estate investors and others to defraud the financial institutions. She knowingly submitted false information regarding down payments and never disclosed personal enrichment or the enrichment of her clients through a kickback scheme that involved a number of real estate investors. The sellers/investors purchased foreclosed properties and minimally rehabilitated them. The sellers then entered into a verbal agreement with the broker to sell the houses. The mortgage broker would obtain an inflated appraisal which factored in the amount the sellers wanted, the down payment needed, and kickbacks paid to her or the purchaser of the house. All of the houses fell into foreclosure, and the total amount of related fraudulent real estate transactions was approximately $8 million.

Two of the real estate investors involved pleaded guilty in 2011. One of them was also sentenced during the reporting period for mail fraud and his role in the mortgage fraud scheme. He was sentenced to serve 12 months in prison to be followed by 12 months of home confinement. He was also ordered to pay restitution of $3,671,038.

Source: *Referral from the U.S. Attorney's Office for the Central District of Illinois.* ***Responsible Agencies:*** *This investigation was conducted by the FDIC OIG, FBI, and the U.S. Postal Inspection Service. The case is being prosecuted by the U.S. Attorney's Office for the Central District of Illinois.*

Strong Partnerships with Law Enforcement Colleagues

The OIG has partnered with various U.S. Attorneys' Offices throughout the country in bringing to justice individuals who have defrauded the FDIC or financial institutions within the jurisdiction of the FDIC, or criminally impeded the FDIC's examination and resolution processes. The alliances with the U.S. Attorneys' Offices have yielded positive results during this reporting period. Our strong partnership has evolved from years of hard work in pursuing offenders through parallel criminal and civil remedies resulting in major successes, with harsh sanctions for the offenders. Our collective efforts have served as a deterrent to others contemplating criminal activity and helped maintain the public's confidence in the nation's financial system.

During the reporting period, we partnered with U.S. Attorneys' Offices in the following geographic areas: Alabama, Arizona, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, and Puerto Rico.

We also worked closely with the Department of Justice; FBI; other OIGs; other federal, state, and local law enforcement agencies; and FDIC divisions and offices as we conducted our work during the reporting period.

Keeping Current with Financial Fraud Activities Nationwide	
The FDIC OIG participates in the following bank fraud, mortgage fraud, and other working groups and task forces throughout the country. We benefit from the perspectives, experience, and expertise of all parties involved in combating criminal activity and fraudulent schemes nationwide.	
OIG Headquarters	National Bank Fraud Working Group--National Mortgage Fraud Working Sub-group.
New York Region	The Northern Virginia Real Estate Fraud Initiative Working Group, Manassas, Virginia; Maine Suspicious Activity Report (SAR) Review Team; Maryland Mortgage Fraud Task Force; New England Mortgage Fraud Working Group; Concord New Hampshire and Boston Massachusetts SAR Review Meetings; Philadelphia Mortgage Fraud Working Group; DC National SAR Review Team.
Atlanta Region	Middle District of Florida Mortgage and Bank Fraud Task Force; Southern District of Florida Mortgage Fraud Working Group; Northern District of Georgia Mortgage Fraud Task Force; Eastern District of North Carolina Bank Fraud Task Force; Northern District of Alabama Financial Fraud Working Group.
Kansas City Region	St. Louis Mortgage Fraud Task Force; Kansas City Mortgage Fraud Task Force; Kansas City Financial Crimes Task Force; Minnesota Inspector General Council meetings; Kansas City SAR Review Team; Springfield, Missouri SAR Review Team; Nebraska SAR Review Team; Iowa Mortgage Fraud Working Group.
Chicago Region	Illinois Mortgage Fraud Working Group; Dayton Area Financial Crimes Task Force; Illinois Fraud Working Group; Central District of Illinois SAR Review Team; Detroit SAR Review Team; Financial Investigative Team, Milwaukee, Wisconsin.
San Francisco Region	FBI Seattle Mortgage Fraud Task Force; Fresno Mortgage Fraud Working Group for the Eastern District of California; Sacramento Mortgage Fraud Working Group for the Eastern District of California; Sacramento SAR Working Group; Los Angeles Mortgage Fraud Working Group for the Central District of California; Orange County Financial Crimes Task Force-Central District of California.
Dallas Region	SAR Review Team for Northern District of Mississippi; SAR Review Team for Southern District of Mississippi; Oklahoma City Financial Crimes SAR Review Work Group; North Texas Mortgage Fraud Working Group; Eastern District of Texas Mortgage Fraud Task Force; Texas Attorney General's Residential Mortgage Fraud Task Force; Houston Mortgage Fraud Task Force; Austin SAR Review Working Group.
Electronic Crimes Unit	Washington Metro Electronic Crimes Task Force, Botnet Threat Task Force, High Technology Crime Investigation Association, Cyberfraud Working Group; Council of the Inspectors General on Integrity and Efficiency Information Technology Subcommittee; National Cyber Investigative Joint Task Force.

Strategic Goal 2:
The OIG Will Help the FDIC Maintain the Viability of the Insurance Fund

Federal deposit insurance remains a fundamental part of the FDIC's commitment to maintain stability and public confidence in the nation's financial system. The FDIC insures bank and savings association deposits. As insurer, the FDIC continually evaluates and monitors changes in the economy, financial markets, and the banking system, to ensure that the 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 more than $89 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. In light of such progress, the DIF balance has continued to increase. As of September 30, 2013, the DIF balance was $40.8 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, 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.

Over recent years, the consolidation of the banking industry resulted in fewer and fewer financial institutions controlling an ever expanding percentage of the nationís 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. Its key program involves the assignment of dedicated examination staff at the largest state non-member banks and all insured depository institutions, regardless of charter type, with total assets greater than $100 billion. According to RMS, on-site supervision is augmented with close coordination with the other federal banking regulatory agencies, comprehensive quarterly off-site reviews, the Shared National Credit Program, and other off-site monitoring systems. Annual supervisory plans are developed for each state non-member bank with total assets over $10 billion. Supervisory Risk–Resolution Activities Plans are developed for each SIFI–financial companies with over $100 billion in total assets. This collaborative effort between the RMS-CFI Group and OCFI includes an overview of the consolidated company's strategic direction, the adequacy of the primary federal regulators' ratings, review of resolution activities, and a prioritization of the risks as well as an action plan to address these risks.

Importantly, with respect to the largest institutions, Title II of the Dodd-Frank Act was intended to 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.

To help the FDIC maintain the viability of the DIF, the **OIG's 2013 performance goal** was 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

We did not complete work specifically related to this goal area during the reporting period. We would note, however, that the OIG's work referenced in Goal 1 fully supports the goal of helping the FDIC maintain the viability of the DIF. For example, each institution for which we conduct a material loss review, in-depth review, or a failed bank review by definition, causes a loss to the DIF. The OIG's failed bank work is designed to help prevent such losses in the future. Similarly, investigative activity described in Goal 1 fully supports the strategic goal of helping to maintain the viability of the DIF. The OIG's efforts often lead to successful prosecutions of fraud in financial institutions, with restitution paid back to the FDIC when possible, and/or deterrence of fraud that can cause losses to the fund.

Strategic Goal 3:
The OIG Will Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Consumer protection laws are important safety nets for Americans. The U.S. Congress has long advocated particular protections for consumers in relationships with banks. 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.

The FDIC is experiencing and implementing changes related to the Dodd-Frank Act that have direct bearing on consumer protections. The Dodd-Frank Act established the Consumer Financial Protection Bureau 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, 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 and 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** were 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

During the reporting period, we did not complete audits or evaluations directly related to this goal area. We would note, however, that we have initiated two new assignments involving consumer protection. First, we are examining the FDIC's actions to address consumer protection violations and deficiencies. Additionally, we are coordinating with OIG counterparts in planning an assignment to examine the progress that the prudential regulators and the Consumer Financial Protection Bureau have made in establishing coordination for the many consumer protection responsibilities that the various parties carry out. As noted earlier, our investigative work involving misrepresentation of FDIC insurance or affiliation and protection of personal information supports this strategic goal area, and we are reporting on one such case during the reporting period. Further, in response to an increase in the number of consumer inquiries in our public inquiry system, the OIG has referred a number of matters either to the FDIC's Consumer Response Center or to other entities offering consumer assistance on banking-related topics. Our investigative and public inquiry efforts are discussed below.

Office of Investigations Works to Prevent Misrepresentations of FDIC Affiliation

Unscrupulous individuals sometimes attempt to misuse the FDIC's name, logo, abbreviation, or other indicators to suggest that deposits or other products are fully insured or somehow connected to the FDIC. Such misrepresentations induce the targets of schemes to trust in the strength of FDIC insurance or the FDIC name while misleading them as to the true nature of the investments or other offerings. These abuses not only harm consumers, they can also erode public confidence in federal deposit insurance. As discussed below, during the reporting period, a Texas man pleaded guilty for his role in a scheme involving misrepresentation of FDIC affiliation that victimized senior citizens.

Houston Man Pleads Guilty to Investment Scheme

On September 9, 2013, a Houston businessman pleaded guilty to the charge of misapplication of fiduciary property. He had been arrested earlier on charges brought by the State of Texas.

Operating under the business names of First American Acceptance Corp. and Park Capital, LLC, the businessman devised a fraudulent investment scheme to steal approximately $1 million from elderly investors. He used independent salesmen to advertise and sell unregistered securities referred to as collateral secured debt obligations (CSDO). The salesmen falsely advertised FDIC-insured certificates of deposit paying high interest rates (above the actual market rate) in local newspapers, and when investors responded to the advertisements, they were steered into the CSDOs. Investors were deceived into believing that the CSDOs were secure and fully insured by either the FDIC or Lloyds of London. Within a year of his taking possession of the investors' funds, the businessman spent their money on personal expenses, including legal and accounting fees.

Source: *Texas State Securities Board, Enforcement Division.* ***Responsible Agencies:*** *This is a joint investigation conducted by FDIC OIG, the FBI, and the Texas State Securities Board. The case is being prosecuted by the Harris County District Attorney's Office.*

OIG Responds to Email Schemes

The Electronic Crimes Unit (ECU) continues to work with agency personnel and an FDIC contractor to identify and mitigate the effects of phishing attacks through emails claiming to be from the FDIC. These schemes persist and seek to elicit personally identifiable and/or financial information from their victims. The nature and origin of such schemes vary, and, in many cases, it is difficult to pursue the perpetrators, as they are quick to cover their cyber tracks, often continuing to originate their schemes from other Internet addresses.

In the latest instance, the ECU learned that over 20 individuals in foreign countries were contacted by individuals claiming to be from the FDIC Division of Resolutions and Receiverships (DRR). The foreign individuals were fraudulently informed that the FDIC was going to reimburse them for stock losses after they paid fees to release the funds. The ECU notified the victims of the scam. Additionally, the ECU is investigating the source of the fraudulent communications to halt further activity.

OIG's Inquiry Intake System Responds to Public Concerns and Questions

The OIG's inquiry intake system supplements the OIG Hotline function. The Hotline continues to address allegations of fraud, waste, abuse, and possible criminal misconduct. Our office also receives a large number of public inquiries ranging from media inquiries to requests for additional information on failed institutions to pleas for assistance with mortgage foreclosures to questions regarding credit card companies and banking practices. These inquiries come by way of phone calls, emails, faxes, and other correspondence. The OIG makes every effort to acknowledge each inquiry and be responsive to the concerns raised. We coordinate closely with others in the Corporation through the FDIC's Public Service Provider working group and appreciate their assistance. We handle those matters within the OIG's jurisdiction and refer inquiries, as appropriate, to other FDIC offices and units or to external organizations. During the past 6-month period, we addressed approximately 180 such matters.

Strategic Goal 4:
The OIG Will Help Ensure that the FDIC Efficiently and Effectively Resolves Failing Banks and Manages Receiverships

One of the FDIC's most important roles is acting as the receiver or liquidating agent for failed FDIC-insured institutions. The FDIC's DRR's 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 have presented a substantial and challenging workload for the Corporation in recent years. Banks over the past years have become more complex, and the industry has consolidated into larger organizations. Throughout the recent crisis, the FDIC was 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 challenges and risks to the FDIC.

Under the Dodd-Frank Act, the FDIC was given 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. OCFI is the principal FDIC office responsible for such activity but works in concert with DRR, RMS, and the Legal Division as well.

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.

Through purchase and assumption agreements with acquiring institutions, the Corporation has entered into 290 shared-loss agreements 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 continue to require much FDIC attention. FDIC receiverships manage assets from failed institutions, mostly those that are not purchased by acquiring institutions through purchase and assumption agreements or involved in structured sales. The FDIC is managing 482 receiverships

holding about $13.8 billion in assets, mostly securities, delinquent commercial real-estate and single-family loans, and participation loans. As receiver, the FDIC seeks to expeditiously wind up the affairs of the receiverships. Once the assets of a failed institution have been sold and the final distribution of any proceeds is made, the FDIC terminates the receivership.

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. Now, 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, fell 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 fell 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.

While OIG audits and evaluations address various aspects of controls in 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 with DRR on concealment of assets cases that may arise. In many instances, the FDIC debtors do not have the means to pay fines or restitution owed to the Corporation. However, some individuals do have the means to pay but hide their assets and/or lie about their ability to pay. In such instances, the Office of Investigations would work with both DRR and the Legal Division in 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** were 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

During the reporting period, as summarized below, we completed two assignments involving resolution and receivership activities. In one, we examined the FDIC's internal controls for identifying and managing risks in resolving financial institutions. We also completed a separate assignment involving the Corporation's structured transaction with MountainView Public Private Investment I, LLC. Efforts of our ECU as they may relate to bank closings are described as well.

The FDIC's Resolution Planning Process

Between 2008 and 2012, the FDIC resolved 465 failed insured depository institutions that caused more than $86 billion in potential losses to the DIF. Total assets in these institutions at the time of failure exceeded $674 billion.

We conducted an evaluation to determine whether the resolution planning process is designed to enable the FDIC to efficiently and effectively identify and manage risks involved with resolving financial institutions. We considered whether the FDIC had established effective internal controls to identify and manage these risks. The FDIC continues to manage risks presented by failed depository institutions after

the institution has been resolved and the FDIC has been appointed as Receiver. Consequently, in doing this review, we also gained an understanding of the controls particularly relevant to risk mitigation associated with receivership processes, and we discuss those controls briefly in our report.

We concluded that the resolution planning process is designed to identify and manage risks associated with the resolution of failing depository institutions, focusing on risks that factor into DRR's marketing of the failing depository institution and the extent to which assets and liabilities will remain with an FDIC receivership.

The FDIC is statutorily required to resolve institutions in the least costly manner and to maximize recoveries from receiverships. Accordingly, many of the risks and challenges facing the FDIC stem from the possibility that the FDIC may not meet these statutory objectives. The FDIC employs several resolution scenarios and each type presents its own set of risks. For most failed institutions, the FDIC successfully transfers certain assets to a healthy acquiring institution. Resolution scenarios where the FDIC is unable to do so, such as a bridge bank or deposit payout, present additional financial, operational, and reputational risks for the FDIC. For those scenarios, the FDIC has developed additional processes and controls to identify and manage the associated resolution and receivership risks.

While DRR works to identify potential resolution risks prior to closing an institution, DRR also designed its receivership processes to mitigate risks that are identified before and after a financial institution is closed. We gained an understanding of controls particularly relevant to risk mitigation that are associated with receivership processes. However, assessing to what extent those controls were properly designed and implemented was outside of the scope of this evaluation. We have performed prior work related to certain aspects of the FDIC's receivership processes wherein we concluded that applicable controls were in place and working.

Our report contained no recommendations.

Mountain View Public Private Investment I, LLC Structured Transaction

The FDIC, as Receiver, had completed 34 structured transactions through August 21, 2013 involving 42,900 assets with a total unpaid principal balance of $26.0 billion. These transactions accounted for 3.8 percent of the $682.4 billion in assets inherited by the FDIC, as Receiver, from failed institutions from January 1, 2008 through August 21, 2013. Given the dollar volume and risks associated with these transactions, the OIG has previously conducted several audits of structured transactions predominately involving commercial assets.

As part of our continuing coverage of this area, the OIG contracted with BDO USA, LLP (BDO) to conduct a performance audit of the FDIC's structured transaction with MountainView Public Private Investment I, LLC (MountainView) that, unlike the prior transactions we reviewed, consists of single-family residential assets. The objective of this audit was to assess MountainView's compliance with the structured transaction agreements.

By way of background, and as noted earlier, structured transactions involve the liquidation of assets through public/private partnerships that utilize the asset management expertise of the private sector. The FDIC, as Receiver, uses structured transactions to facilitate the sale of many receivership assets that are difficult to market and sell. Such assets consist largely of distressed and non-performing single-family and commercial real estate loans and real estate owned.

In a structured transaction, the FDIC, as Receiver for one or more failed institutions, pools a group of similar assets, such as single-family, commercial real estate, or construction-type loans, from one or more failed-bank receiverships and transfers the assets into a newly created limited liability company (LLC). In exchange for contributing the assets, the FDIC, as Receiver, obtains the entire ownership interest, or equity, in the LLC. Following a competitive bid process, the FDIC, as Receiver, then sells a portion of the equity in the LLC to pre-qualified, private-sector investors. The

FDIC, as Receiver, also engages various outside consultants (or advisors) to provide technical assistance with the transactions.

In this particular case, on August 15, 2011, the FDIC, as Receiver for 49 failed institutions, formed SFR Venture 2011-1, LLC (SFR Venture). On September 1, 2011, the FDIC, as Receiver, transferred 1,453 single-family residential loans with an estimated unpaid principal balance of $282.2 million to SFR Venture. As partial consideration for transferring the assets, SFR Venture executed and delivered to the FDIC, as Receiver, a purchase money note with an initial principal amount of $69.2 million. Following a competitive bid process, the FDIC, as Receiver, sold a 40-percent equity interest in SFR Venture to MountainView for $27.7 million. The FDIC, as Receiver, retained the remaining 60-percent equity interest in SFR Venture. MountainView is the Manager and, as such, is responsible for the day-to-day management of SFR Venture and ultimately responsible for ensuring compliance with the structured transaction agreements. MountainView works closely with its Servicer, Statebridge Company, LLC.

BDO concluded that, overall, MountainView was in compliance with the structured transaction agreements, based on the testing performed. MountainView dedicated substantial resources to ensure compliance with the structured transaction agreements, its loan files were well organized, and its employees were knowledgeable of the requirements in the structured transaction agreements. Additionally, MountainView had an asset management strategy designed to maximize collections; considered and performed loan modifications in accordance with the terms of the transaction agreements; ensured the timely application of collections to borrowers' accounts; and obtained appropriate approvals for loan workouts, asset sales, foreclosures, loan modifications, and loan modification denials.

Further, BDO did not identify any issues pertaining to regulatory compliance or MountainView's process for responding to customer inquiries. Nonetheless, BDO found that MountainView, through its Servicer, Statebridge, could enhance its controls by:

- Ensuring that lien releases are filed timely;
- Ensuring that real estate owned values are accurately reflected in reporting documents;
- Formalizing its approach to ensuring compliance with key regulatory requirements, including those contained in consumer protection laws; and
- Formalizing its process for tracking, recording, and responding to customer inquiries.

We made four recommendations intended to strengthen the processes associated with the FDIC's structured transaction with MountainView. In its response, DRR concurred with all four.

Electronic Crimes Unit Supports Closed Bank Investigations and Other OIGs

The ECU continues to support the OIG's Office of Investigations by providing computer forensic assistance in ongoing fraud investigations. During the reporting period, the ECU also offered its expertise and resources to other OIGs in need of assistance—namely, the Securities and Exchange Commission and Legal Services Corporation OIGs. We are pleased that we are in a position to leverage our resources by offering computer forensic support to our colleagues in the interest of helping them fully achieve their missions.

Strategic Goal 5:
The OIG Will Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

The FDIC must effectively 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 continues 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, effective security, and vigilant stewardship of its core business processes and the IT systems supporting those processes, along with attention to human and physical resources, will continue to be keys to the Corporation's success.

As the number of financial institution failures continues to decline, the Corporation is reshaping its workforce and adjusting its budget and resources accordingly. As noted earlier, 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, fell 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. DRR contractor funding also fell 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 volume of failed-bank assets and associated contracting activities 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 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 declined, 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 and other economic and fiscal uncertainties.

As conditions gradually 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, knowledge, 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 ongoing staffing of OCFI, with hiring from

both internal and external sources continues to require attention—with respect to on-boarding, training, and retaining staff with requisite skills for the challenging functions of that office. For the best interest of all employees, in light of a transitioning workplace, the Corporation is sustaining its emphasis on fostering employee engagement and morale. Its 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 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 Stability Oversight Council formed pursuant to the Dodd-Frank Act. FDIC systems contain voluminous amounts of critical data. The Corporation needs to protect against cyber-threats and ensure the integrity, availability, and appropriate confidentiality of bank data, personally identifiable information, 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.

Of note during the reporting period, in July 2013, the FDIC Chairman announced significant organizational changes in the FDIC's IT realm. The Chairman indicated he had assessed the FDIC's IT security policies, procedures, and organizational alignment. The assessment identified a number of opportunities to enhance the IT area and address a wide range of increasing IT security risks in the current global environment. One recommendation coming out of the assessment was to separate the Chief Information Officer (CIO) role, which had traditionally been performed on a collateral duty basis by the Director of the Division of Information Technology (DIT). In the Chairman's view, given current IT developments and risks, the CIO role required a full-time incumbent with broad strategic responsibility for IT governance, investments, program management, and information security. Under a new organizational alignment, the CIO now reports directly to the Chairman in fulfilling these responsibilities and acts as the Chairman's key advisor on IT and information security issues and concerns. Additionally, the Director of DIT now reports to the CIO and is responsible for managing the IT function at the FDIC and identifying and implementing effective and efficient technological solutions.

Another recommendation from the assessment was to enhance the reporting relationship of the Chief Information Security Officer, and the Information Security and Privacy Staff branch, from DIT to report directly to the CIO. This realignment is intended to ensure that the Chief Information Security Officer is able to provide an independent perspective on security matters to the CIO and that the separate CIO position has the authority and primary responsibility to implement an agency-wide information security program.

Finally, a key component of overall corporate governance at the FDIC is the FDIC Board of Directors. Even as the financial system and economy continue to make steady progress in the aftermath of the recent crisis, 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** were 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

During the reporting period, we completed three assignments in support of this goal area. We conducted a review of the FDIC's compliance with energy management requirements—a project also conducted by a number of different OIGs–at the request of a Congressional task force. We also completed work in connection with the application development activities conducted by some of the FDIC's individual business units. Finally, we joined the Treasury and FRB OIGs in issuing a sixth joint review related to the transfer of OTS personnel and functions to the OCC, FRB, and FDIC, pursuant to the Dodd-Frank Act. These reviews are summarized below.

The FDIC's Compliance with Energy Management Requirements

The federal government is the nation's single largest energy consumer, and federal buildings accounted for about 35 percent of the government's total energy usage in fiscal year 2008. For decades, the federal government has attempted to improve energy efficiency and water conservation at federal facilities.

During the reporting period, we performed an evaluation in response to a request from the Bicameral Task Force on Climate Change, dated February 25, 2013. The Task Force also sent letters to nearly 70 other OIGs requesting that they perform similar assessments. Consistent with the Task Force request, we conducted work to (1) identify the existing energy management requirements in legislation, regulation, executive order, and other directives that apply to the FDIC; (2) assess whether the FDIC is meeting those requirements; and (3) make recommendations that the FDIC improve its performance if the FDIC is not fully meeting the requirements.

The Task Force request letter also asked the OIG to assess the authorities that the FDIC has to reduce emissions of heat-trapping pollution, its authorities to make the nation more resilient to the effects of climate change, and the most effective additional steps the FDIC could take in those areas. On March 28, 2013, we responded to the Task Force that the FDIC did not have authorities in these areas and that the FDIC's focus should remain on maintaining public confidence in the nation's financial system and not be expanded to cover these additional areas.

By way of perspective, the FDIC owns four buildings located in Virginia, Washington, D.C., and California, which are divided into seven buildings for energy-tracking purposes. The FDIC also leased 105 office spaces across the United States as of April 2013.

The FDIC is subject to energy efficiency measures and related reporting requirements in certain legislation. Specifically, the FDIC's Legal Division opined that the National Energy Conservation Policy Act is binding on the FDIC as are certain parts of the *Energy Independence and Security Act of 2007*, the *Energy Policy Act of 2005*, and the *Energy Policy Act of 1992*, each of which amended the National Energy Conservation Policy Act. As an independent agency of the federal government, the FDIC is not required to comply with Executive Orders but has voluntarily complied with some of the provisions of Executive Orders pertaining to energy efficiency.

We concluded that the FDIC has undertaken a number of efforts to reduce its energy and water consumption and to recycle waste materials. Notable efforts have included capital

improvements at its owned buildings, such as replacing heating, ventilation, and air conditioning systems and adding supplemental boilers and chillers to provide heating and cooling more efficiently; installation of energy-efficient lighting, room occupancy sensors, and water-efficient fixtures; recycling efforts; and the use of environmentally preferable products. Other initiatives have also contributed to less energy usage, such as corporate support for telecommuting, video conferencing, carpooling, flexible work schedules, and electronic sharing of information.

Notwithstanding those efforts, we determined that the FDIC could do more to comply with energy reduction, water management, and reporting requirements contained in legislation. Specifically, we concluded that the FDIC should:

- Take steps aimed at meeting legislative energy reduction goals;
- Establish a training program for energy managers;
- Perform comprehensive periodic evaluations of covered facilities;
- Implement and monitor energy conservation measures that are life cycle cost-effective;
- Report information to the Department of Energy about covered facilities;
- Report annually to the Department of Energy on the Corporation's activities for meeting federal energy management requirements;
- Establish a process for reviewing large capital energy investment decisions; and
- Research additional opportunities with energy service companies, state agencies, and other third parties to identify and participate in programs that achieve energy and water savings.

Further, while the FDIC had addressed several components of a 2008 OIG report recommendation to establish a formal sustainability program, we noted that the FDIC would benefit from fully implementing this recommendation by developing and documenting energy management policies and procedures, related goals, and initiatives for meeting Federal Energy Management Program requirements. Formalizing a sustainability program would encompass many of the areas discussed in our report.

Our report contained eight recommendations to strengthen the FDIC's energy efficiency measures and programs and its compliance with applicable legislation and reporting requirements. The FDIC concurred with all eight recommendations and described planned corrective actions that it would complete by December 31, 2014.

Business Unit-Led Application Development Activities

Business unit-led application development generally refers to the creation or enhancement of IT solutions where the development is performed under the direction of an FDIC business division or office (i.e., a business unit), rather than the FDIC's DIT. In our most recent information security program evaluation report required by the Federal Information Security Management Act of 2002, we noted that such development activity presents risk because it generally occurs outside of formal risk management and IT governance processes. Accordingly, we decided to review this area in more detail during the reporting period to determine the extent to which controls have been established to mitigate those risks.

Within the FDIC, DIT has primary responsibility for managing the FDIC's IT program and operations, including the development and enhancement of applications. The Director, DIT, reports to the FDIC's CIO, who has corporate-wide strategic responsibility for IT governance, investments, program management, and information security. DIT follows formal risk management and IT governance processes when developing applications. Such processes include the Rational Unified Process systems development life cycle (SDLC) methodology and corporate policies and procedures that address such things as the enterprise architecture, data management, information

security, privacy, configuration management, and quality assurance. In addition, the FDIC has established various governance bodies, such as the Capital Investment Review Committee and the CIO Council, to provide oversight and control of application development initiatives that meet certain criteria.

The FDIC's business units also engage in application development activity and, in some cases, have established specialized IT support service units to perform the development work. Business unit-led application development ranges from the building of simple applications with only a few users to complex applications with hundreds of users. Consequently, the cost of the applications can vary from a few thousand dollars to over $1 million. Such development can also involve creating new data or collecting sensitive information, such as personally identifiable information, that is used to support important business functions, such as large bank supervision, the marketing of failing banks, and human resources management. Business units fund their application development activities through their operational budgets. However, our report notes that there is no FDIC policy requirement for business units to track or report the costs of their development activities to FDIC management officials, and business units did not do so. As a result, we were unable to determine the total amount spent on business unit-led application development at the FDIC. The majority of the FDIC's business unit-led application development occurs within DRR and RMS.

In January 2013, DIT began hosting a series of meetings with division and office representatives to discuss issues associated with business unit-led application development and to develop a corporate policy and supporting guidance in this area. The corporate policy and guidance is intended to provide, among other things, criteria for identifying application development efforts that are appropriate for business unit-led development, the IT governance processes that should apply, and the project activities involved.

Our report acknowledges that business unit-led application development provides the FDIC's divisions and offices with the flexibility to rapidly develop and deploy IT solutions to support information analysis and management decision making. However, this type of development also presents risk because it has generally occurred outside of the FDIC's established risk management framework and IT governance processes that are designed to ensure internal controls are addressed. Key risks associated with the FDIC's business unit-led application development activities that we identified during the audit include not:

- recording the applications in the FDIC's information systems inventory, thereby limiting the FDIC's assurance that the applications are subject to appropriate risk management procedures and oversight;
- subjecting development projects to appropriate IT governance processes, thus reducing the FDIC's assurance that IT investment decisions are consistent with corporate and division goals and priorities; and
- establishing appropriate SDLC standards, therefore limiting the FDIC's assurance that applications are properly designed and tested, systems documentation is adequate, and information security and privacy requirements are addressed.

We identified certain controls that were established by the FDIC's business units that mitigated, to some extent, the risks described above. Such controls included SDLC guidelines and procedures to guide certain application development activities and committees to provide oversight of IT activities. However, we determined that control improvements were needed in all three risk areas noted above.

We made three recommendations to the FDIC's Acting CIO. In general, the recommendations are aimed at establishing appropriate policies, procedures, and guidance to ensure that applications are recorded in the Corporation's information systems inventory, when appropriate; that business units have appropriate IT governance processes and SDLC standards; and that existing applications comply with FDIC security policies.

The Acting CIO concurred with all three of the report's recommendations.

Joint Review Conducted by the OIGs of the Department of the Treasury, Board of Governors of the Federal Reserve System, and the FDIC

We issued a report presenting the results of the sixth joint review by the Department of the Treasury (Treasury), the FRB, and FDIC OIG of the transfer, pursuant to Title III of the Dodd-Frank Act, of the functions, employees, funds, and property of the former OTS to the FRB, the FDIC, and the OCC. In accordance with Title III of the Dodd-Frank Act, the transfer occurred in July 2011. The Dodd-Frank Act further requires that we, jointly with the Department of the Treasury and the FRB OIGs, provide a written report on the status of the implementation of the Plan every 6 months until the Plan is implemented.

The last *Status of the Transfer of Office of Thrift Supervision Functions* report, issued on March 28, 2013, identified no ongoing issues concerning the FDIC's implementation of the Plan. In addition, we were not advised of any new issues regarding the Plan, nor did Treasury OIG identify a need for any expanded or new audit work impacting the FDIC, since the last report was issued. Accordingly, our office did not perform field work related to the Plan as part of this audit.

FDIC OIG's Electronic Crimes Unit Addresses Threats to FDIC Information Security

The ECU is tackling threats to the FDIC's IT environment on several fronts. During the reporting period, we enhanced our coordination with DIT with respect to detecting and preventing insider threats to the abundance of sensitive information and personally identifiable information held by the Corporation. Together we are seeking to proactively prevent any release by FDIC insiders—accidental or deliberate—of such sensitive information beyond the walls of the FDIC's secure environment—through electronic means such as emailing sensitive information to personal email accounts or otherwise allowing such information to be disclosed.

Additionally, and on a broader scale, the OIG is a member of the National Cyber Investigative Joint Task Force (NCIJTF). In 2008, the President mandated the NCIJTF to be the focal point for all government agencies to coordinate, integrate, and share information related to all domestic cyber threat investigations. The FBI is responsible for developing and supporting the joint task force, which includes 19 intelligence agencies and law enforcement, working together to identify key players and schemes. Its goal is to predict and prevent what is on the horizon and to pursue the enterprises behind cyber attacks. The NCIJTF focuses on making the Internet safer by pursuing the terrorists, spies, and criminals who seek to exploit our systems. Because they act globally across many jurisdictions, the collaboration offered through the NCIJTF is critical to ensure all legal means and resources available are used to track, attribute, and take action against these cyber threats.

Strategic 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 over the past few years was 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, the FDIC's substantial resolution and receivership responsibilities, and its new resolution authorities under the Dodd-Frank Act. All of these 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 IG and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. As a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the OIG adheres to the *Quality Standards for Federal Offices of Inspector General*. Further, the OIG conducts its audit work in accordance with generally accepted government auditing standards; its evaluations in accordance with *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* 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 FDIC Board meetings and at Audit Committee meetings where recently issued audit and evaluation reports are discussed. Other meetings occur throughout the year as OIG officials meet with division and office leaders and attend and participate in internal FDIC conferences and other forums.

The OIG also places a high priority on maintaining positive relationships with the Congress and providing timely, complete, and high quality responses to congressional inquiries. In most instances, this communication would include semiannual reports to the Congress; issued audit and evaluation reports; responses to other legislative mandates; 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 OIG fully supports and participates in CIGIE activities, and the FDIC IG has served as Chair of its Audit Committee (and will continue

to do so as IG at the Department of Defense). We coordinate closely with representatives from the other the 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 CIGFO and the FDIC IG served as Vice Chair prior to his departure from the FDIC OIG.

The IG served as a member of the Comptroller General's Advisory Council on Government Auditing Standards and was the Chair of the Green Book Advisory Council. Additionally, the OIG meets with representatives of the Government Accountability Office 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 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 continuously seek to 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** were as follows:

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

A brief listing of OIG activities in support of these performance goals follows.

Effectively and Efficiently Manage OIG Human, Financial, IT, and Physical Resources	
1	Provided the OIG's Fiscal Year 2014 budget to both the Senate and the House Financial Services and General Government Committees. This budget requests $34.6 million to support 130 full-time equivalents, reflecting no change from our Fiscal Year 2013 budget, based on corporate workload assumptions of bank failures and resolution activity expected in calendar year 2013 and beyond.
2	Prepared for furlough of OIG staff, in light of the lapse in appropriations that occurred on October 1, 2013. Coordinated with the Office of Management and Budget and developed an orderly shut-down plan and notifications to FDIC management and to all OIG staff who would be affected.
3	Continued to monitor, track, and control OIG spending, particularly as it relates to OIG travel-related expenses and use of procurement cards.
4	Pursued options for a new investigative case management system, and worked to better track audit and evaluation assignment costs and to manage audit and evaluation records located in TeamMate or on shared drives or SharePoint sites.
5	Engaged a contractor to review and update the OIG's records and information management program and practices to ensure an efficient and effective means of collecting, storing, and retrieving needed information and documents. Took steps to increase awareness of the importance of records management in the OIG, including through internal training sessions and presentations to OIG staff in headquarters and field locations.
6	Continued using our inquiry intake system to capture and efficiently manage inquiries from the public, media, Congress, and the Corporation, in the interest of prompt and effective handling of such inquiries. Participated with the FDIC's group of Public Service Providers to share information on inquiries and complaints received, identify common trends, and determine how best to respond to public concerns.
7	Continued working with a contractor to assist with redesign of the OIG's Intranet site to provide a more useful, efficient work tool for all OIG staff.
8	Planned longer-range OIG personnel/recruiting strategies to ensure a strong, effective complement of OIG resources going forward and in the interest of succession planning.

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations	
1	Developed the OIG's Quality Assurance Plan for October 2013–March 2016 to ensure quality in all audit and attestation engagement work and evaluations, in keeping with government auditing standards and Quality Standards for Inspection and Evaluation. Also issued our Quality Control Review of the OIG's generally accepted government auditing standards assignments–2012.
2	Oversaw contracts to qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise as we conduct audits and evaluations, and closely monitored contractor performance.
3	Continued use of the IG's feedback form to assess time, cost, and overall quality and value of audits and evaluations.
4	Provided training to OIG investigative staff to ensure all staff is current on legal updates and investigative techniques and practices involved in their work.
5	Participated in planning and attended the FDIC/DOJ Financial Fraud Conference to help ensure continued quality coordination with DOJ and law enforcement colleagues.
6	Relied on OIG Counsel's Office to provide legal advice and counsel to teams conducting audits and evaluations, and to support investigations of financial institution fraud and other criminal activity, in the interest of ensuring legal sufficiency and quality of all OIG work.
7	Coordinated with State Department OIG staff to provide needed information for that office to carry out a peer review of our audit organization. That peer review resulted in a "Pass" rating, confirming that the system of quality control for our audit organization in effect during the period April 1, 2011 through March 31, 2013, had been suitably designed and complied with to provide our office with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
8	Coordinated the IG community's audit peer review activities for OIGs government-wide as part of our leadership of the CIGIE Audit Committee to ensure a consistent and effective peer review process and quality in the federal audit function.
9	Reviewed and updated a number of OIG internal policies related to audit, evaluation, investigation, and management operations of the OIG to ensure they provide the basis for quality work that is carried out efficiently and effectively throughout the office and made substantial progress converting and transferring all such policies to a new automated policies and procedures repository for use by all OIG staff.
10	Monitored and participated in the Corporation's Plain Writing Act initiative to ensure quality products and OIG compliance with the intent of the Act.

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training	
1	Continued to support members of the OIG attending graduate banking school programs and other advanced banking training opportunities to enhance the OIG staff members' expertise and knowledge of the banking industry.
2	Employed interns on a part-time basis in the OIG to provide assistance to the OIG.
3	Represented the CIGIE Audit Committee in the Office of Personnel Management's initiative to close skills gaps associated with six mission-critical positions, including the auditor 511 position.
4	Continued involvement in the IG community's introductory auditor training sessions designed to provide attendees with an overall introduction to the community and enrich their understanding of fundamental aspects of auditing in the federal environment.
5	Enrolled OIG staff in several different FDIC Leadership Development Programs to enhance their leadership capabilities.
6	Continued an active OIG Mentoring Program, which pairs mentors and mentorees as a means of developing and enriching both parties in the relationship and enhancing contributions of OIG staff to the mission of the OIG.
7	Sponsored lunch-time Webinars on a variety of topics relevant to the OIG in the interest of providing additional opportunities for professional development for OIG staff.

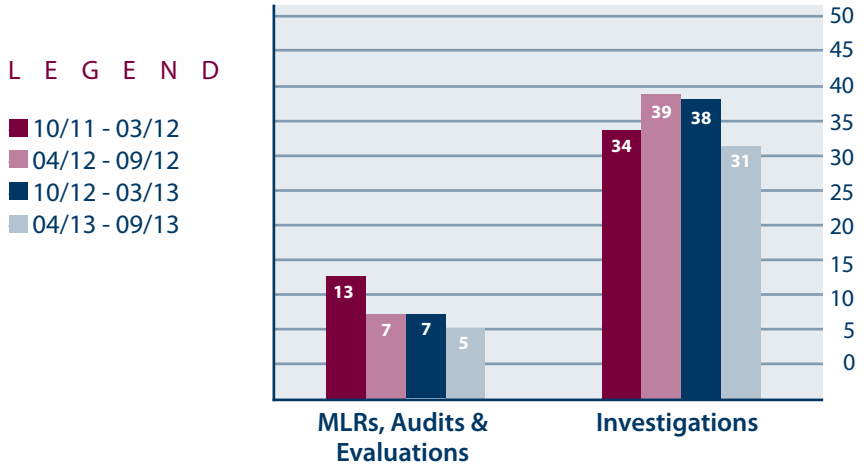
Foster Good Client, Stakeholder, and Staff Relationships	
1	Maintained congressional working relationships by briefing and communicating with various Committee staff on issues of interest to them; providing our semiannual report to the Congress for the 6-month period ending March 31, 2013; notifying interested congressional parties regarding the OIG's completed audit and evaluation work; attending or monitoring FDIC-related hearings on issues of concern to various oversight committees; and coordinating with the Corporation's Office of Legislative Affairs on issues of mutual interest. Of note during this reporting period was the IG's testimony before the Senate Committee on Banking, Housing, and Urban Affairs on lessons learned from the financial crisis regarding community banks.
2	Communicated with the Chairman, Vice Chairman, FDIC's internal Director, other FDIC Board Members, the Chief Financial Officer, CIO, and other senior FDIC officials through the IG's regularly scheduled meetings with them and through other forums.
3	Participated in numerous outreach efforts with such external groups as the Federal Audit Executive Council, the American Conference Institute, Department of Justice, American Institute of Certified Public Accountants, and the Federal Financial Institutions Examination Council to provide general information regarding the OIG and share perspectives on issues of mutual concern and importance to the financial services industry.
4	Held quarterly meetings with FDIC Division Directors and other senior officials to keep them apprised of ongoing OIG reviews, results, and planned work.
5	Kept RMS, DRR, the Legal Division, and other FDIC program offices informed of the status and results of our investigative work impacting their respective offices. This was accomplished by notifying FDIC program offices of recent actions in OIG cases and providing Office of Investigations' quarterly reports to RMS, DRR, the Legal Division, and the Chairman's Office outlining activity and results in our cases involving closed and open banks. Coordinated closely with the Legal Division on matters pertaining to enforcement actions and professional liability cases.

6	Participated at FDIC Audit Committee meetings to present the results of completed audits, evaluations, and related matters for consideration by Committee members.
7	Reviewed eight proposed or revised corporate policies related to, for example, the FDIC's procedures for the owned real estate asset litigation review group, procedures for the Franchise and Asset Marketing Branch's asset litigation, and the Corporation's professional dues reimbursement program. Made suggestions to increase clarity and specificity of these and other draft policies. Provided more substantive comments on the FDIC's proposed directive on the probationary or trial period of new supervisors and managers.
8	Supported the IG community by having the IG serve as Chair of the CIGIE Audit Committee and coordinating the activities of that group, including advising on the introductory auditor training and oversight of the community's audit peer review process and scheduling; attending monthly CIGIE meetings and participating in Investigations Committee, Council of Counsels to the IGs, and Professional Development Committee meetings; and commenting on various legislative matters through the Legislation Committee.
9	Communicated with various representatives of the OIGs of the federal banking regulators and others (FRB, Department of the Treasury, National Credit Union Administration, Securities and Exchange Commission, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, Export-Import Bank, SIGTARP, Department of Housing and Urban Development) to discuss audit and investigative matters of mutual interest and leverage knowledge and resources. Participated on CIGFO, as established by the Dodd-Frank Act, with the IGs from most of the above-named agencies, a Council on which the FDIC IG served as Vice Chair.
10	Responded to Senators Charles Grassley and Tom Coburn's biannual request for a report on all closed investigations, evaluations, and audits conducted by our office that were not disclosed to the public. Our response covered the period October 2012 through March 2013.
11	Responded to the annual request from the Chairman, Committee on Oversight and Government Reform, U.S. House of Representatives, for information on open and unimplemented OIG recommendations made to the FDIC.
12	Coordinated with FDIC parties on matters regarding the Whistleblower Protection Act of 2012, to ensure that the Corporation's related training and informational materials are adequate.
13	Coordinated with the Department of Justice and U.S. Attorneys' Offices throughout the country in the issuance of press releases announcing results of cases with FDIC OIG involvement and routinely informed the FDIC's Office of Communications and Chairman's office of such releases.
14	Formed part of the CIGFO working group conducting work related to the Financial Stability Oversight Council's process for designating financial market utilities as systemically important.
15	Provided input to the CIGFO annual report, outlining the work the FDIC OIG had completed during the year related to the financial services industry and issues of concern to the Financial Stability Oversight Council.
16	Convened meetings of the OIG's Workplace Excellence Council, in keeping with the Corporation's model of the same. Explored means of ensuring positive staff working relationships and excellence in the OIG's internal operations and activities.

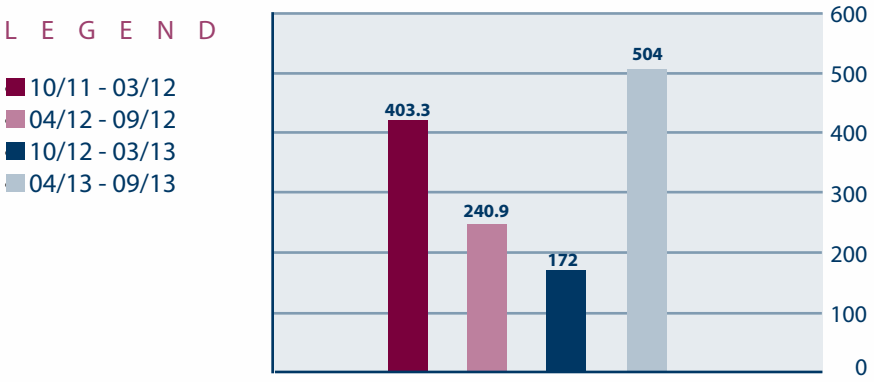
Enhance OIG Risk Management Activities	
1	Began risk-based OIG planning efforts for audits, evaluations, and investigations for fiscal year 2014 and beyond, taking into consideration the goals of, and risks to, FDIC corporate programs and operations and those risks more specific to the OIG. Used the OIG conference as a forum to solicit risk perspectives of senior FDIC officials to aid in planning OIG work for the fiscal year.
2	Attended FDIC Board Meetings, corporate planning and budget meetings, and other senior-level management meetings to monitor or discuss emerging risks at the Corporation and tailor OIG work accordingly.
3	Assessed OIG controls in support of the annual assurance letter to the FDIC Chairman, under which the OIG provides assurance that it has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, Office of Management and Budget A-123, and other key legislation.
4	Continued to monitor the management and performance challenge areas that we identified at the FDIC, in accordance with the Reports Consolidation Act of 2000 as we conducted audits, evaluations, and investigations: Implementing New Systemic Resolution Responsibilities, Resolving Failed Institutions and Managing Receiverships, Maintaining the Viability of the DIF, Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program, Protecting and Educating Consumers and Ensuring an Effective Compliance Program, and Effectively Managing the FDIC Workforce and Other Corporate Resources.
5	Met with representatives of the Government Accountability Office to provide preliminary perspectives on the risk of fraud at the FDIC. We did so in response to the Government Accountability Office's responsibility under Statement of Auditing Standards No. 99, Consideration of Fraud in Financial Statement Audits.

Nonmonetary Recommendations	
October 2011 – March 2012	17
April 2012 – September 2012	21
October 2012 – March 2013	27
April 2013 – September 2013	15

Products Issued and Investigations Closed



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



Fiscal Year 2013 Performance Report

This performance report presents an overview of our performance compared to our Fiscal Year 2013 annual performance goals in our Business Plan. It provides a statistical summary of our qualitative goals as well as a narrative summary of performance results by Strategic Goal. It also shows our results in meeting a set of quantitative goals that we established for the year.

We formulated six strategic goals, as shown in the table below. Each of our strategic goals, which are long-term efforts, has annual performance goals and associated assignments that represent our initiatives in Fiscal Year 2013 toward accomplishing the strategic goal. The table reflects the number of performance goals that were Met, Substantially Met, or Not Met. This determination is made through ongoing discussions at the OIG Executive level and a qualitative assessment as to the impact and value of the audit, evaluation, investigation, and other work of the OIG supporting these goals throughout the year.

As shown in the table, we met or substantially met 95 percent of our performance goals in Fiscal Year 2013. A discussion of our work in each of the goal areas begins on page 48.

Fiscal Year 2013 Annual Performance Goal Accomplishment (Number of Goals)

Strategic Goals	Performance Goals			
	Met	Substantially Met	Not Met	Total
Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly	2			2
Insurance: Help the FDIC Maintain the Viability of the Insurance Fund		1		1
Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy		2	1	3
Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failing Banks and Manages Receiverships	2			2
FDIC Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources	4	2		6
OIG Resources Management: Build and Sustain a High-Quality OIG Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships	3	2		5
Total	11	7	1	19
Percentage	58	37	5	100

Quantitative Performance Measures 2013			
Performance Measure	**FY 2013 Target**	**FY 2013 Actual**	**Status**
Financial Benefit Return[a]	100%	2199%	Met
Past Recommendations Implemented[b]	95%	100%	Met
Complete 100 Percent of Audit/Evaluation Assignments Required by Statute by the Required Date	100%	100%	Met
Audit/Evaluation Assignments Completed Within 30 Days of Established Final Report Milestone	90%	58%	Not Met
Audit/Evaluation Assignments Completed Within 15 Percent of Established Budget	90%	75%	Not Met
Investigation Actions[c]	200	569	Met
Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements	85%	62%	Not Met
Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case	85%	87%	Met
Closing Reports Issued to Management Within 30 Days of Completion of All Judicial Actions	100%	65%	Not Met

[a] 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 the OIG's total fiscal year budget obligations.

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

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

Comment on Overall Performance Results: In reviewing our qualitative performance results, we note that the lingering demands of our H.R. 2056 workload and a needed focus on IT security and governance matters, along with several unanticipated requests during the year precluded us from fully meeting certain of our goals. Since January 2013, however, we have begun to resume more discretionary audit and evaluation coverage of identified areas of risk at the FDIC and will continue to do so during the upcoming fiscal year. With respect to quantitative results, we are pleased to have completed our statutorily required work on time, including our work in response to H.R. 2056. As for work under the Federal Information Security Management Act, we coordinated with FDIC management to meet the time frames prescribed by the Act for transmission of our report and the Corporation's to the Office of Management and Budget. We did, however, fall short in several areas. For example, we were unable to fully meet our timeliness and cost goals for the conduct of audits and evaluations. This was in part attributable to the necessary shift in resources to perform the equivalent of eight audit assignments in response to the H.R. 2056 legislation, an unforeseen IT security and governance matter that we addressed, and a request from the FDIC Chairman to review the FDIC's implementation of systemic resolution responsibilities, that, taken together, had an impact on timeframes and costs for previously planned work. We also did not fully meet certain investigative goals and plan to evaluate why this is so. In light of significant changes in the FDIC's and the OIG's post-crisis operating environments, we intend to re-evaluate all of our goals and results as part of our 2014 strategic planning efforts and hope to be able to better meet the performance measures that we establish.

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

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, the Department of Justice, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. During the reporting period, we completed several projects involving supervision issues. One of those was in response to Public Law 112-88, also known as H.R. 2056. This law required that we conduct a comprehensive study on the impact of the failure of insured depository institutions and submit a report, along with recommendations, to the Congress. We issued our report on January 3, 2013, and the IG testified before the House Financial Services Committee, Subcommittee on Financial Institutions and Consumer Credit, in March 2013 and again before the Senate Committee on Banking, Housing, and Urban Affairs in June 2013 to convey the results of that comprehensive effort and the seven recommendations we made. With respect to supervision, we addressed aspects of FDIC examiners' review of an institution's lending and loan review functions, capital adequacy, allowance for loan and lease loss estimates, appraisal programs, loan workouts, and the supervisory enforcement actions that examiners pursue to address identified deficiencies. Another of our reports in support of this goal area closely examined acquisition, development, and construction lending, believed to be a contributing factor to institution failures, when not accompanied by a proper control environment. We also completed 25 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of less than the threshold of $150 million if failing after January 1, 2012 and determined whether unusual circumstances existed that would warrant an in-depth review in those cases.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also successfully combated a number of mortgage fraud schemes. Our efforts in support of bank fraud, mortgage fraud, and other financial services working groups also supported this goal. Overall results include 131 indictments, 139 convictions, and nearly $676 million in fines, restitution, and other monetary benefits. Particularly noteworthy results from our casework include the pleas and sentencings of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failure. For example, in a case involving the largest bank failure in Virginia and losses to the Deposit Insurance Fund of more than $333 million, we reported a number of successful actions during the past year. A Hampton Roads businessman was sentenced to 168 months in prison and 3 years of supervised release for carrying out elaborate and sophisticated fraud schemes that contributed to the Bank of the Commonwealth's failure and defrauded investors and the government of millions of dollars. He was ordered to pay restitution of more than $32 million, joint and several, with his co-defendant, a business partner who had pleaded guilty earlier to conspiracy to commit wire fraud and bank fraud. The partner was sentenced to 138 months in prison. In the same case, following a 10-week trial, three top bank executives and a favored borrower of the Bank of the Commonwealth were found guilty for their roles in a scheme to mask non-performing assets for their own benefit and to the detriment of the bank. Three of the four had received stiff sentences as of the end of the fiscal year. The former executive vice president and commercial loan officer was sentenced to 17 years in prison and ordered to pay restitution of nearly $332 million, joint and several with co-conspirators. The CEO's son was sentenced to 8 years in prison and ordered to pay $2.4 million in restitution to the FDIC and forfeit over $4 million in proceeds from the scheme. The favored borrower, a real estate developer, was sentenced to more than 4 years in prison and ordered to pay restitution to the FDIC of nearly $5 million.

Also of note during the performance period were several successful mortgage fraud cases. In one case, the lead figure, a former bank employee, was sentenced to 97 months in prison and ordered to pay $11.6 million in restitution. Yet another scheme involved multiple attorneys, loan officers from a mortgage brokerage firm, a real estate title closer, and numerous straw buyers, many of whom are now serving prison terms and required to pay restitution. In another case, a realtor was sentenced to 37 months in prison to be followed by 5 years

of supervised release and ordered to pay restitution of nearly $6 million. A mortgage broker was also sentenced to 12 months in prison, 12 months of home confinement, and ordered to pay nearly $5 million in restitution for her role in defrauding multiple financial institutions.

The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships, and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with RMS and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. We have strengthened our process for regular coordination of enforcement action matters with the Legal Division and RMS, a step that has proven to be mutually beneficial.

Strategic Goal 2 – Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

We did not conduct specific assignments to address this goal area during the performance period. However, our audit and evaluation work in support of Goal 1 fully supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the insurance fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses and losses to the Deposit Insurance Fund.

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

We did not devote audit or evaluation resources to specific consumer protection matters during the performance period because for the most part, we continued to devote those resources to completing H.R. 2056 work and focusing on FDIC activities in the resolution and receivership realms. As of the end of the performance period, however, we had ongoing efforts for two assignments in this area. First, we are examining the FDIC's actions to address consumer protection violations and deficiencies. Additionally, we are coordinating with OIG counterparts in planning an assignment to examine the progress that the prudential regulators and the Consumer Financial Protection Bureau have made in establishing coordination for the many consumer protection responsibilities that the various parties carry out.

Our Office of Investigations also supports consumer protection through its work. For example, during the past year, as an outcome of one of our investigations, an individual posing as an FDIC "broker" was sentenced to 144 months in prison and ordered to pay nearly $6 million in restitution to his victims for his role in a Ponzi fraud scheme through which he marketed and sold fictitious FDIC-insured certificates of deposit to unsuspecting senior citizen investors. In another case, a Houston businessman pleaded guilty for his role in a fraudulent investment scheme to steal about $1 million from elderly investors. As part of the scheme, his salesmen sold unregistered securities—collateral debt obligations—falsely claiming they were fully insured by either the FDIC or Lloyds of London.

Also of note, our Electronic Crimes Unit responded to instances where fraudulent emails purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. Working with the Corporation's Division of Information Technology, our investigators seek to protect consumers by dismantling such schemes. In further support of consumer protection, the OIG also continued to respond to a number of inquiries from the public, received both through our Hotline and through other channels. We addressed about 330 such inquiries during the past year.

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

We completed several assignments in this goal area during the past year. That is, we conducted an audit of the Division of Resolutions and Receiverships' controls for managing, marketing, and disposing of owned real estate and made recommendations to enhance control activities for these processes. Given the Corporation's responsibilities for billions of dollars in owned real estate, strong controls are vital to successful management and disposition activities. Additionally, we conducted

an audit of the Division of Resolutions and Receiverships' resolution planning, determining that the FDIC had established controls to identify and manage risks associated with the resolution of failing depository institutions. We also completed work on a structured sale involving MountainView Public Private Investment I, LLC, and single-family residential assets, wherein we did not identify any concerns with regard to MountainView's complying with the agreement but did recommend actions to enhance MountainView's controls.

H.R. 2056 work covering this goal area included an assessment of multiple aspects of the FDIC's use of shared-loss agreements from the borrowers' and institutions' perspectives, including the impact on the rate of loan modifications and adjustments, the impact of the availability of credit, and the policies and procedures for terminating the agreements. Other matters reviewed as part of H.R. 2056 related to private investment in insured depository institutions and the policies and procedures governing such activity.

We would also note that in connection with the FDIC's new resolution authority for systemically important financial institutions, the Dodd-Frank Act requires that the FDIC OIG conduct, supervise, and coordinate audits and investigations of the liquidation of any covered financial company by the Corporation as receiver under Title II of the Act. We continued taking steps to ensure we are prepared for such an eventuality.

From an investigative standpoint, our Electronic Crimes Unit continued to support investigative activities related to closed banks by providing computer forensic support in ongoing fraud investigations.

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

We completed assignments addressing various FDIC internal activities during the year. We issued the results of a billing review of Lockheed Martin in which we identified $740,784 in questioned costs and made additional recommendations to strengthen contract administration and oversight management controls and practices. We completed our 2012 work in response to the Federal Information Security Management Act and made 14 recommendations to improve the effectiveness of the FDIC's information security program controls. With respect to the governmentwide financial reporting system, we verified that the FDIC's summary general ledger information agreed with summary information entered into the reporting system for the fiscal year ended September 30, 2012. More recently, we issued the results of our review of the FDIC's compliance with energy management requirements and made eight recommendations to strengthen the FDIC's energy efficiency measures and programs, and its compliance with applicable legislation and reporting requirements. We also completed a review of the FDIC's controls over business-unit led application development activities. In that review we highlighted risks presented by such activities and made three recommendations to enhance related risk management procedures and IT governance processes.

In connection with the Dodd-Frank Act, we issued the results of the fifth and sixth coordinated reviews of the status of the implementation activities of the Joint Implementation Plan prepared by the Board of Governors of the Federal Reserve System, the FDIC, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

At the end of the reporting period, we were undertaking work in the areas of information technology project management, controls for safeguarding sensitive information submitted under the Dodd-Frank Act, and our 2013 audit of the FDIC's information security management.

We promoted integrity in FDIC internal operations through ongoing OIG Hotline and other referrals and coordination with the FDIC's Divisions and Offices, including corporate ethics officials, as warranted.

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

To ensure effective and efficient management of OIG resources, among other activities, we permanently filled our Assistant Inspector General for Management position. We subsequently focused on a number of initiatives to monitor and track OIG spending, particularly costs involved in travel and procurement card spending, and to

explore options for better systems to house OIG policies and procedures and to capture and track information on our investigative cases. We also provided our FY 2014 budget to the FDIC Chairman and to cognizant Congressional committees. This budget reflects $34.6 million to support 130 full-time equivalents, no change from our prior year request.

We conducted several internal quality assessment projects to ensure quality work, and developed our Quality Assurance Plan for October 2013-March 2016. We oversaw contracts with qualified firms to provide audit and evaluation services to the OIG to supplement our efforts and provide additional subject-matter expertise. We continued use of the Inspector General feedback form for audits and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by supporting individuals in our office pursuing certified public accounting and other professional certifications. We also employed college interns on a part-time basis to assist us in our work. We supported OIG staff members attending graduate schools of banking and other courses to further their expertise and knowledge of the complex issues in the banking industry and supported staff taking FDIC leadership training courses. In an effort to ensure a strong cadre of OIG staff, we reinstituted our mentoring program to partner mentors and mentorees to share experiences, knowledge, and individual challenges.

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the U.S. Government Accountability Office. The Inspector General served in key leadership roles as the Chair of the Council of the Inspectors General on Integrity and Efficiency Audit Committee; Vice Chair of the Council of Inspectors General on Financial Oversight, as established by the Dodd-Frank Act; and as a Member of the Comptroller General's Advisory Council on Government Auditing Standards and Chair of the Green Book Advisory Council. Senior OIG executives were speakers at a number of professional organization and government forums, for example those sponsored by the American Institute of Certified Public Accountants, American Conference Institute, Maryland Association of Certified Public Accountants, Georgetown University Public Policy Institute, Department of Justice, FDIC divisions and offices, and international organizations sponsored by the State Department. The OIG participated in corporate diversity events and on the Chairman's Diversity Advisory Council. We continued to use our public inquiry intake system and maintained and updated the OIG Web site to respond to the public and provide easily accessible information to stakeholders.

In the area of risk management, in connection with SAS 99 and the annual audit of the FDIC's financial statements, we provided comments on the risk of fraud at the FDIC to the U.S. Government Accountability Office. We provided the OIG's 2012 assurance statement to the FDIC Chairman regarding our efforts to meet internal control requirements. We also participated regularly at meetings of the National Risk Committee and later the new Enterprise Risk Committee to further monitor risks at the Corporation and tailor OIG work accordingly. We undertook a review of risks in corporate divisions and offices as part of planning for FY 2013 and FY 2014. We shared OIG perspectives on enterprise risks with the Corporation's Chief Risk Officer and others in the Corporation. In keeping with the Reports Consolidation Act of 2000, we provided our assessment of management and performance challenges facing the Corporation for inclusion in its annual report and monitored and/or pursued assignments in the areas identified as challenges throughout the year: Implementing New Systemic Resolution Responsibilities, Resolving Failed Institutions and Managing Receiverships, Maintaining the Viability of the Deposit Insurance Fund, Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program, Protecting and Educating Consumers and Ensuring an Effective Compliance Program, and Effectively Managing the FDIC Workforce and Other Corporate Resources.

Significant Outcomes—FY 2013 (October 1, 2012– September 30, 2013)	
Audit and Evaluation Reports Issued	12
Questioned Costs	$740,784
Nonmonetary Recommendations	42
Investigations Opened	70
Investigations Closed	69
OIG Subpoenas Issued	18
Judicial Actions:	
Indictments/Informations	131
Convictions	139
Arrests	56
OIG Investigations Resulted in:	
Fines of	$62,000
Restitution of	$642,521,063
Asset Forfeitures of	$33,343,339
Total	$675,926,402
Cases Referred to the Department of Justice (U.S. Attorney)	65
Cases Referred to FDIC Management	1
Proposed Regulations and Legislation Reviewed	17
Proposed FDIC Policies Reviewed	16
Responses to Requests Under the Freedom of Information Act (FOIA) or Privacy Act (including one FOIA appeal)	18

Reporting Requirements

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Note: Evaluation report statistics are included in this report as well, in accordance with the Inspector General Reform Act of 2008.

Appendix 1:
Information Required by the Inspector General Act of 1978, as Amended

Review of Legislation and Regulations

The FDIC OIG's review of legislation and regulations during the past 6-month period involved the following activities:

- By way of the Legislation Committee of CIGIE, Counsel's Office commented on H.R. 1163, the *Federal Information Security Amendments Act 2013*, which passed the House on April 16, 2013, and H.R. 1468, the *Strengthening and Enhancing Cybersecurity by Using Research, Education, Information, and Technology Act of 2013* (SECURE IT), which was introduced on April 10, 2013. The comments dealt with the importance of retaining annual Inspector General evaluations of agency information security, in accordance with the Federal Information Security Management Act (FISMA) (Title III of Public Law 107-347).
- In connection with the aforementioned bills, Counsel's Office joined in advocating for revisions to the Freedom of Information Act so as to allow agencies and their IGs to publicly disclose nonsensitive information in the IGs' FISMA reports and to withhold sensitive information in those reports from public disclosure.
- Regarding S. 994, the Digital Accountability and Transparency Act of 2013, Counsel's Office, in conjunction with members of the CIGIE Audit Committee, drafted comments that dealt with the scope and timing of OIG work in connection with agency expenditures that would be required under the Act.
- Counsel's Office considered the effects of two Acts on the FDIC OIG, in particular. In the first case, the Vacancies Reform Act of 1998 (5 U.S.C. § 3345-3349d) is the federal law that provides rules for filling vacancies that must be filled by Presidential Appointment with Senate confirmation appointments. The Act is the exclusive means by which a vacant Presidential Appointment with Senate confirmation position is filled by a person designated as the "Acting" official. Given the departure of FDIC IG Jon Rymer to become the IG at the Department of Defense, Counsel's Office guided the selection of the Principal Deputy IG to become the Acting IG. Second, in light of the lapse in appropriations that ultimately impacted the FDIC OIG, Counsel's Office examined provisions in the Antideficiency Act. This Act prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation, apportionment, or certain administrative subdivisions of those funds (31 U.S.C. §§ 1341, 1517(a)). The Act also prohibits agencies from accepting voluntary services (31 U.S.C. §§ 1342).

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

This table shows the corrective actions management has agreed to implement but has not completed, along with any associated monetary amounts. In some cases, corrective actions may be different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on (1) information supplied by the FDIC's Corporate Management Control (CMC), Division of Finance, and (2) the OIG's determination of closed recommendations. Recommendations are closed when (a) CMC notifies the OIG that corrective actions are complete or (b) in the case of recommendations that the OIG determines to be particularly significant, after the OIG confirms that corrective actions have been completed and are responsive. CMC has categorized the status of these recommendations as follows:

Management Action in Process: (two recommendations from one report)

Management is in the process of implementing the corrective action plan, which may include modifications to policies, procedures, systems, or controls; issues involving monetary collection; and settlement negotiations in process.

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
AUD-13-003 **Independent Evaluation of the FDIC's Information Security Program – 2012** November 5, 2012	10	Coordinate with the FDIC's divisions to (a) update the expected completion dates and remediation strategies for all security vulnerabilities in OpenFISMA that are past due and (b) develop an approach for effectively monitoring, prioritizing, and resolving security vulnerabilities in OpenFISMA that are past due.
	14	Coordinate with the FDIC's divisions to establish an implementation schedule and periodic progress reporting for applying the Outsourced Information Service Provider Assessment Methodology to the FDIC's outsourced information service providers.

Table II: Audit and Evaluation Reports Issued by Subject Area

Audit/Evaluation Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Resolution and Receivership Management				
AUD-13-006 September 6, 2013	The FDIC's Structured Transaction with MountainView Public Private Investment I, LLC			
EVAL-13-004 September 12, 2013	The FDIC's Resolution Planning Process			
Resources Management				
EVAL-13-003 August 19, 2013	The FDIC's Compliance with Energy Management Requirements			
AUD-13-007 September 11, 2013	The FDIC's Controls over Business Unit-Led Application Development Activities			
AUD-13-008 September 26, 2013	Status of the Transfer of Office of Thrift Supervision Functions			
Totals for the Period				

Table III: Audit and Evaluation Reports Issued with Questioned Costs

	Number	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period.	0	$0	$0
B. Which were issued during the reporting period.	0	$0	$0
Subtotals of A & B	**0**	**$0**	**$0**
C. For which a management decision was made during the reporting period.	0	$0	$0
(i) dollar value of disallowed costs.	0	$0	$0
(ii) dollar value of costs not disallowed.	0	$0	$0
D. For which no management decision has been made by the end of the reporting period.	0	$0	$0
Reports for which no management decision was made within 6 months of issuance.	0	$0	$0

Table IV: Audit and Evaluation Reports Issued with Recommendations for Better Use of Funds

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	$0
B. Which were issued during the reporting period.	0	$0
Subtotals of A & B	**0**	**$0**
C. For which a management decision was made during the reporting period.	0	$0
(i) dollar value of recommendations that were agreed to by management.	0	$0
- based on proposed management action	0	$0
- based on proposed legislative action	0	$0
(ii) dollar value of recommendations that were not agreed to by management.	0	$0
D. For which no management decision has been made by the end of the reporting period.	0	$0
Reports for which no management decision was made within 6 months of issuance.	0	$0

Table V: Status of OIG Recommendations Without Management Decisions

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

Table VI: Significant Revised Management Decisions

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

Table VII: Significant Management Decisions with Which the OIG Disagreed

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

Table VIII: Instances Where Information Was Refused

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

Appendix 2: Information on Failure Review Activity

(required by the Dodd-Frank Wall Street Reform and Consumer Protection Act)

FDIC OIG Review Activity for the Period April 1, 2013 through September 30, 2013 (for failures causing losses to the DIF of less than $150 million from January 1, 2012 through December 31, 2013)						
Institution Name	**Closing Date**	**Estimated Loss to DIF (Dollars in millions)**	**Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver**	**Unusual Circumstances Warranting In-Depth Review?**	**Reason for In-Depth Review**	**Due Date or Date Issued**
Failure Review Activity – Updated from Previous Semiannual Report						
Reviews Completed During the Reporting Period						
The Royal Palm Bank of Florida (Naples, Florida)	7/20/12	$13.5	The bank's capital accounts had been exhausted by losses and there was no immediate prospect for recapitalization.	No	N/A	N/A
Heartland Bank (Leawood, Kansas)	7/20/12	$3.1	The bank was critically under-capitalized under Prompt Corrective Action.	No	N/A	N/A
Jasper Banking Company (Jasper, Georgia)	7/27/12	$58.1	The bank was critically under-capitalized and unable to meet the requirements of a consent order.	No	N/A	N/A
Waukegan Savings Bank (Waukegan, Illinois)	8/3/12	$19.8	The bank's capital was less than the minimum acceptable, the bank was in an unsound condition, and the bank was conducting its business in an unsafe and unsound manner.	No	N/A	N/A
First Commercial Bank (Bloomington, Minnesota)	9/7/2012	$65.9	The bank was in an unsafe and unsound condition, and it would be inappropriate and contrary to the public interest to allow the bank to continue in business.	No	N/A	N/A
Excel Bank (Sedalia, Missouri)	10/19/12	$40.9	The bank was critically under-capitalized and in a failing condition.	No	N/A	N/A
NOVA Bank (Berwyn, Pennsylvania)	10/26/12	$91.2	The bank was operating in an unsafe and unsound condition to transact business, had an impairment of its capital below the minimum required by law, and was in violation of a consent order.	No	N/A	N/A
Heritage Bank of Florida (Lutz, Florida)	11/2/12	$65.5	The bank was imminently insolvent.	No	N/A	N/A
Hometown Community Bank (Braselton, Georgia)	11/16/12	$36.7	The bank was unable to meet certain requirements of the consent order, including the minimum levels of capitalization.	No	N/A	N/A
Community Bank of the Ozarks (Sunrise Beach, Missouri)	12/14/12	$12.4	The bank was critically undercapitalized.	No	N/A	N/A
Westside Community Bank (University Place, Washington)	1/11/13	$26.8	The bank was in an unsafe and unsound condition, and it would be inappropriate and contrary to the public interest to allow the bank to continue in business.	No	N/A	N/A

FDIC OIG Review Activity for the Period April 1, 2013 through September 30, 2013 (for failures causing losses to the DIF of less than $150 million from January 1, 2012 through December 31, 2013)						
Institution Name	**Closing Date**	**Estimated Loss to DIF (Dollars in millions)**	**Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver**	**Unusual Circumstances Warranting In-Depth Review?**	**Reason for In-Depth Review**	**Due Date or Date Issued**
1st Regents Bank (Andover, Minnesota)	1/18/13	$16.2	The bank was in an unsafe and unsound condition and was critically undercapitalized.	No	N/A	N/A
Reviews Pending/Ongoing as of the End of the Reporting Period						
Covenant Bank (Chicago, Illinois)	2/15/13	$21.8				
Frontier Bank (LaGrange, Georgia)	3/8/13	$51.6				
Heritage Bank of North Florida (Orange Park, Florida)	4/19/13	$30.2				
Chipola Community Bank (Marianna, Florida)	4/19/13	$10.3				
Parkway Bank (Lenoir, North Carolina)	4/26/13	$18.1				
Douglas County Bank (Douglasville, Georgia)	4/26/13	$86.4				
Pisgah Community Bank (Asheville, North Carolina)	5/10/13	$8.9				
Sunrise Bank (Valdosta, Georgia)	5/10/13	$17.3				
Central Arizona Bank (Scottsdale, Arizona)	5/14/13	$8.6				
Banks of Wisconsin (Kenosha, Wisconsin)	5/31/13	$26.3				
1st Commerce Bank (North Las Vegas, Nevada)	6/6/13	$9.4				
First Community Bank of SW Florida (Fort Myers, Florida)	8/2/13	$27.1				
Bank of Wausau (Wausau, Wisconsin)	8/9/13	$13.5				
Community South Bank (Parsons, Tennessee)	8/23/13	$72.5				
Sunrise Bank of Arizona (Phoenix, Arizona)	8/23/13	$17				
The Community's Bank (Bridgeport, Connecticut)	9/13/13	$7.8				

Appendix 3: Peer Review Activity

(required by the Dodd-Frank Wall Street Reform and Consumer Protection Act)

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal Inspectors General are required to engage in peer review processes related to both their audit and investigative operations. In keeping with Section 989C, the FDIC OIG is reporting the following information related to its peer review activities. These activities cover our most recent roles as both the reviewed and the reviewing OIG and relate to both audit and investigative peer reviews.

Audit Peer Reviews

On the audit side, on a 3-year cycle, peer reviews are conducted of an OIG audit organization's system of quality control in accordance with the *CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General,* based on requirements in the *Government Auditing Standards* (Yellow Book). Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail.

- The U.S. Department of State (DOS) and the Broadcasting Board of Governors OIG conducted a peer review of the FDIC OIG's audit organization and issued its system review report on September 17, 2013. In the DOS OIG's opinion, the system of quality control for our audit organization in effect during the period April 1, 2011 through March 31, 2013, had been suitably designed and complied with to provide our office with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We received a peer review rating of pass.

  The report's accompanying letter of comment contained six recommendations that, while not affecting the overall opinion, were designed to further strengthen the system of quality control in the FDIC OIG Office of Audits and Evaluations.

In responding to the recommendations, we committed to completing recommended actions by February 28, 2014.

This peer review report (the system review report and accompanying letter of comment) is posted on our Web site at www.fdicig.gov

Definition of Audit Peer Review Ratings

Pass: The system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Pass with Deficiencies: The system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

Fail: The review team has identified significant deficiencies and concludes that the system of quality control for the audit organization is not suitably designed to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the audit organization has not complied with its system of quality control to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

FDIC OIG Peer Review of the Smithsonian Institution OIG

The FDIC OIG completed a peer review of the audit operations of the Smithsonian Institution (SI), and we issued our final report to that OIG on September 21, 2011. We reported that in our opinion, the system of quality control for the audit organization of the SI OIG, in effect for the 15-month period ended March 31, 2011, had been suitably designed and complied with to provide the SI OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The SI OIG received a peer review rating of pass.

As is customary, we also issued a letter of comment, dated September 21, 2011, that set forth findings and recommendations that were not considered to be of sufficient significance to affect our opinion expressed in the system review report. We made 11 recommendations, with which the SI OIG agreed. SI OIG indicated it would complete all corrective actions related to the findings and recommendations no later than March 31, 2012. Our findings and recommendations related to the following areas: standards followed on desk reviews, statements of independence for referencers, disciplinary mechanism for reporting personal impairments, reviews of continuing professional education data, reporting whether audit results can be projected, internal quality assurance program enhancements, and SI OIG's letter related to the annual financial statements audit. SI OIG has posted its peer review report (the system review report and accompanying letter of comment) on its Web site at www.si.edu/oig/.

In our semiannual report as of March 31, 2012, we reported that the SI OIG reported completed actions on 4 of our 11 recommendations. SI OIG was also updating its audit manual to reflect the Fiscal Year 2011 revision to government auditing standards and recommendations from our peer review. As of September 30, 2012, SI OIG reported that actions on all recommendations in our peer review report had been completed.

Ongoing FDIC OIG Audit Peer Review Activity

We are currently preparing to conduct a peer review of the audit organization of the National Archives and Records Administration OIG. We will report the results of that review in an upcoming semiannual report.

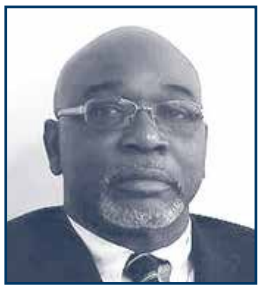
Investigative Peer Reviews

Quality assessment peer reviews of investigative operations are conducted on a 3-year cycle as well. Such reviews result in a determination that an organization is "in compliance" or "not in compliance" with relevant standards. These standards are based on *Quality Standards for Investigations* and applicable Attorney General guidelines. The Attorney General guidelines include the *Attorney General Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority* (2003), *Attorney General Guidelines for Domestic Federal Bureau of Investigation Operations* (2008), and *Attorney General Guidelines Regarding the Use of Confidential Informants* (2002).

- The FDIC OIG conducted a peer review of the investigative function of the National Aeronautics and Space Administration OIG during June through August 2011. We issued our final report to NASA OIG on November 10, 2011. We reported that, in our opinion, the system of internal safeguards and management procedures for the investigative function of the NASA OIG in effect for the period ending December 31, 2010 was in full compliance with the quality standards established by CIGIE and Attorney General Guidelines. We also issued a letter of observations but made no recommendations in that letter.
- The Department of Energy (DOE) OIG conducted the most recent peer review of our investigative function. DOE OIG issued its final report on the quality assessment review of the investigative operations of the FDIC OIG on July 31, 2012. DOE OIG reported that in its opinion, the system of internal safeguards and management procedures for the investigative function of the FDIC OIG in effect for the year ending June 22, 2012, was in compliance with quality standards established by CIGIE and the applicable Attorney General guidelines. These safeguards and procedures provided reasonable assurance of conforming with professional standards in the planning, execution, and reporting of FDIC OIG investigations.

Congratulations and Farewell

Retirement—Charles Chisolm

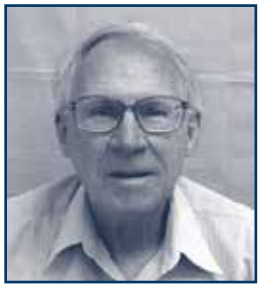


Special Agent Charles Chisolm retired from the FDIC following more than 36 years of federal service, including 2 years of military service in the United States Army from August 1974 through August 1976. He began his federal career in 1978 as a clerk typist at the Equal Employment Opportunity Commission and thereafter spent time at the Department of Health, Education, and Welfare in other clerical assignments. In 1980, he joined the Department of Education as a collections agent, and from 1981 until 1991, he continued his career at the Department of the Treasury's Internal Revenue Service, serving as a tax examiner and a revenue officer in offices in Texas.

He became a criminal investigator at the Department of Education OIG in 1991 and served there until 1998. In 1998, he joined the FDIC OIG workforce in Dallas, Texas, and advanced steadily in his career while serving as special agent in the Office of Investigations.

Charles' investigative skills contributed to the success of a complex financial institution fraud case involving the failure of BestBank, Boulder, Colorado, including the conviction of an individual on 43 counts of bank fraud and wire fraud and a restitution order of more than $9 million to the FDIC as Receiver for BestBank. His participation on a joint investigation with the Department of Agriculture OIG in 2006 earned him the honor of an Award for Excellence from the Inspector General community. Throughout his career, Charles earned the respect of his immediate colleagues and others in the federal, state, and local law enforcement community for his efforts to ensure integrity in the financial services and banking industries.

Retirement—Bill Harrington



Bill Harrington retired from the FDIC after more than 37 years of federal service. He began his career on several temporary appointments during the period 1964 through 1971, at the U.S. Department of Agriculture (USDA); Department of Health, Education, and Welfare (HEW--now Department of Health and Human Services or HHS); and Small Business Administration. In 1979, he took an accountant position at HEW in Austin, Texas, and was subsequently promoted to an auditor position and then reassigned to HHS in Olympia, Washington, in September 1980. Several years later, he transferred to the USDA OIG in Seattle, Washington, and then on to the Department of Transportation OIG, where he served as an auditor for 5 years. In October 1989, he began his tenure in the FDIC OIG as a senior auditor in the OIG's Dallas office and served with distinction right up to his retirement. Bill also has the honor of having served in the U.S. Army from November 1967 through August 1969.

Bill was instrumental in many OIG audits—including a number of contract audits like the owned real estate management contract with CB Richard Ellis and the FDIC's Guard Services Contract; program audits in various FDIC Divisions, including the Division of Resolutions and Receiverships' program for managing owned real estate and the Division of Risk Management Supervision's Bank Secrecy Act and anti-money laundering program. He provided invaluable assistance on an assignment requested by a former FDIC Chairman as well–one involving procurement integrity and IT governance.

He also helped in our efforts to ensure strong controls over the FDIC's information security program and related IT activities through our audits under FISMA and other reviews of FDIC privacy contract clauses and FDIC background investigations. His efforts on material loss reviews were critical in helping the OIG meet its statutory mandate to examine the causes of bank failures and the FDIC's supervision of the institutions.

Farewell to Former FDIC IG Jon T. Rymer

After more than 7 years of service as the FDIC Inspector General (IG), Jon Rymer has left the Corporation to become the IG at the Department of Defense. Following a successful career in the private sector as a banker and member of a public accounting firm, Mr. Rymer was nominated by President George W. Bush, confirmed by the United States Senate on June 22, 2006, and sworn into office as the FDIC IG on July 5, 2006.

During Mr. Rymer's tenure, the OIG issued more than 230 audit and evaluation reports with more than 400 non-monetary recommendations and $113 million in potential monetary benefits. This body of work enhanced the economy, efficiency, and effectiveness of FDIC programs and operations in such areas as examination activities, resolution and receivership matters, consumer protections, enterprise risk management, corporate governance, privacy and information security controls, and financial and contract operations.

During the financial crisis, in particular, a period of unprecedented challenges to the global economy, the nation's banking system, and the financial marketplace, the OIG completed more than 100 material loss and in-depth reviews outlining the causes of institution failures and assessing the FDIC's supervision of the failed institutions, and failed bank reviews of an additional 170 institutions, a body of work that brought about significant enhancements to the FDIC's examination and supervisory activities.

Mr. Rymer also led the OIG's investigative staff of special agents, coordinating closely with the Department of Justice; U.S. Attorney's Offices; the FBI; and other federal, state, and local law enforcement colleagues throughout the nation. As a result of this investigative work, the FDIC OIG and the Department of Justice brought to justice those who caused losses to the DIF, threatened the safety and soundness of financial institutions, and undermined the integrity of the financial services and housing industries through more than 925 indictments, 750 convictions, 450 arrests, and $5.9 billion in potential fines, restitution, and monetary recoveries.

In fulfilling his role as IG, Mr. Rymer engaged in ongoing communications with the Congress through OIG semiannual reports; Congressional testimonies and communications with the Senate Banking, House Financial Services, and other interested Committees; Congressionally requested studies and correspondence; and periodic staff briefings.

Concurrent with his service as IG of the FDIC, Mr. Rymer served as Interim IG of the Securities and Exchange Commission from May 31, 2012 until January 31, 2013, and guided that office at a challenging time as the Commission was seeking to name a permanent Inspector General.

Mr. Rymer was an active and highly esteemed member of the Council of the Inspectors General on Integrity and Efficiency while serving as IG of the FDIC, including serving on the Executive Council and as Chair of the Council's Audit Committee since July 2008.

In May 2011, he also assumed the role of Vice Chair of the Council of Inspectors General on Financial Oversight, leading its first working group effort examining the Financial Stability Oversight Council's controls over non-public information. Over the years, he also forged strong working relationships with the U.S. Government Accountability Office and served as a member of the Comptroller General's Yellow Book Advisory Board and as Chair of the Green Book Advisory Council.

Mr. Rymer proudly served our nation for more than 30 years through active and reserve duty as a member of the U.S. Army. He retired from military service in June 2013.

The OIG sincerely appreciates all aspects of Mr. Rymer's service to our country and to the FDIC. We bid Mr. Rymer a fond farewell and wish him the best in his new role as Department of Defense Inspector General.

Abbreviations and Acronyms

ANB	ANB Financial, N.A.
BDO	BDO USA, LLP
BOC	Bank of the Commonwealth
CEO	Chief Executive Officer
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CSDO	collateral secured debt obligation
DIF	Deposit Insurance Fund
DIT	Division of Information Technology
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRR	Division of Resolutions and Receiverships
ECU	Electronic Crimes Unit
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FISMA	Federal Information Security Management Act
FRB	Board of Governors of the Federal Reserve System
GPRA	Government Performance and Results Act of 1993
IG	Inspector General
IRS-CI	Internal Revenue Service, Criminal Investigation Division
IT	Information Technology
NCIJTF	National Cyber Investigative Joint Task Force
OCC	Office of the Comptroller of the Currency
OCFI	Office of Complex Financial Institutions
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
RMS	Division of Risk Management Supervision
SAR	Suspicious Activity Report
SDLC	Systems Development Life Cycle
SIGTARP	Special Inspector General for the Troubled Asset Relief Program

Congratulations to CIGIE Award Recipients

Eight members of the FDIC OIG, along with colleagues from six other OIGs, were recognized by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) for their excellent work over the last year. The Barry R. Snyder Joint Award, one of the featured awards bestowed by CIGIE's Executive Council, recognizes groups who have made significant contributions through a cooperative effort in support of the CIGIE mission. The Council of Inspectors General on Financial Oversight Working Group received this year's Barry R. Snyder Joint Award at the CIGIE Annual Awards Ceremony on November 15, 2013.

Barry R. Snyder Joint Award

Council of Inspectors General on Financial Oversight Working Group: *Audit of the Financial Stability Oversight Council's Controls over Non-Public Information*

In recognition of outstanding collaborative efforts to identify the security gaps in non-public information-sharing among members of the Financial Stability Oversight Council

Arlene Boateng, Senior Audit Specialist, FDIC OIG

Leslee Bollea, Congressional Relations Director, FDIC OIG

Daniel Craven, Senior IT Specialist, FDIC OIG

Judith Hoyle, IT Auditor-in-Charge, FDIC OIG

Adriana Rojas, Associate Counsel, FDIC OIG

Teresa Supples, Office Support Specialist, FDIC OIG

Sharon Tushin, Communications Director, FDIC OIG

Margaret Wolf, Supervisory Auditor, FDIC OIG

The working group, a first of its kind, performed an innovative and timely review to examine the information security control environments of the newly created financial oversight council. Given its mission, this council will work with highly sensitive, global financial services information. Based on the results of this audit, the working group identified potential risks or gaps that the council should consider as part of its efforts to develop a control framework over the exchange of information between and among its members.

The working group, led by the FDIC OIG, consisted of OIGs from the following agencies:

- Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau
- Commodity Futures Trading Commission
- Department of the Treasury
- Federal Deposit Insurance Corporation
- Federal Housing Finance Agency
- National Credit Union Administration
- Securities and Exchange Commission

OIG Hotline

The Office of Inspector General (OIG) Hotline is a convenient mechanism employees, contractors, and others can use to report instances of suspected fraud, waste, abuse, and mismanagement within the FDIC and its contractor operations. The OIG maintains a toll-free, nationwide Hotline (1-800-964-FDIC), electronic mail address (IGhotline@FDIC.gov), and postal mailing address. The Hotline is designed to make it easy for employees and contractors to join with the OIG in its efforts to prevent fraud, waste, abuse, and mismanagement that could threaten the success of FDIC programs or operations.

To learn more about the FDIC OIG and for copies of audit and evaluation reports discussed in this Semiannual Report, visit our Web site: http://www.fdicig.gov

Federal Deposit Insurance Corporation
Office of Inspector General
3501 Fairfax Drive
Arlington, VA 22226