Office of Inspector General

Office of Audits Assignment Plan

Fiscal Year 2005

October 1, 2004 – September 30, 2005

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

DATE: August 27, 2004

MEMORANDUM TO: Chairman
Board of Directors
Audit Committee
Chiefs
Division and Office Directors
General Counsel

FROM: Gaston L. Gianni, Jr.
Inspector General

SUBJECT: Office of Audits Assignment Plan for Fiscal Year 2005

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the Nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Under the Inspector General Act (IG Act) of 1978, as amended, the Office of Inspector General (OIG) is responsible for independently examining the programs and activities of the FDIC, including FDIC contractors and insured depository institutions, through audits, evaluations, investigations, and other reviews. Our work helps to ensure that the FDIC's operations are economical and efficient and deter and detect instances of fraud, waste, and abuse. The IG Act also requires that the Inspector General keep the Chairman and the Congress fully and currently informed of agency problems and corrective actions. A tool in fulfilling these responsibilities is the OIG's Office of Audits annual assignment plan, which outlines planned assignments for fiscal year 2005, or the period October 1, 2004 through September 30, 2005.

Our program of performance audits and evaluations complies with the Government Auditing Standards, issued by the Comptroller General of the United States. In addition to the standards, our work will be conducted in accordance with the OIG's four "CORE" values—Communication, Objectivity, Responsibility, and Excellence—adopted to guide the organization in achieving the OIG's mission, strategic goals, and strategic objectives.

One strategic goal is that OIG products will add value by achieving significant impact related to addressing issues of importance to the Chairman, the Congress, and the public. To achieve this goal, the OIG will contribute to ensuring the (1) protection of insured depositors, (2) safety and soundness of FDIC-supervised institutions, (3) protection of consumers' rights, (4) achievement of recovery to creditors of receiverships, and (5) effective management of agency resources.

In December 2003, in the spirit of the Reports Consolidation Act of 2000, the OIG completed a risk-based assessment of the most significant management and performance challenges facing the FDIC for inclusion in the Corporation's performance and accountability report. We provided a discussion of these challenges to the FDIC's Chief Financial Officer, and the FDIC included them in the Corporation's consolidated annual report. The assignments in this plan are designed to address those challenges and are presented within that framework in the pages that follow. Further, the findings and recommendations resulting from the assignments in the plan will assist the FDIC in successfully accomplishing the goals outlined in its Corporate *Annual Performance Plan* and in pursuing the three corporate priorities articulated by the FDIC Chairman in his Second Quarter Letter to Stakeholders in 2004: Stability, Sound Policy, and Stewardship.

To facilitate the reader's understanding of how our planned assignments relate to the Office of Audits overall mission, goals, and working groups, we have included a two-part illustration of the plan. First, *Serving the FDIC: OIG Assignment Planning Framework*, presents the OIG's mission, a strategic goal and objective for value and impact, and the risk-based management and performance challenges. Next, the illustration shows each of our planned assignments arrayed in relation to the management and performance challenges. Finally, our Appendix to the plan links each planned assignment to four Directorates in the Office of Audits: (1) Supervision and Insurance; (2) Resolution, Receivership, and Legal Services; (3) Information Assurance; and (4) Resources Management. A fifth Directorate, Corporate Evaluations, performs cross-cutting, corporate-wide, and other evaluations of FDIC programs and activities.

In April and June 2004, we provided members of the FDIC Operating Committee and members of FDIC management with a draft listing of proposed assignments and a draft assignment plan, respectively. We received a number of comments in response and considered and addressed suggestions for new assignments. The input we received from the Operating Committee and other corporate management officials this year in formulating our plan has been very useful. By way of outreach and meetings conducted during the past year, we engaged in a productive dialogue with FDIC executives and managers in both headquarters and field locations to continue to identify those areas where the OIG can devote resources in the best interests of the Corporation. The resulting plan will guide our efforts. However, our planning process is ongoing and dynamic. Thus, we may alter the focus, timing, and selection of assignments to better respond to legislatively mandated priorities, congressional requests, emerging issues in our Nation's financial system, and changing priorities within the FDIC.

We appreciate the Corporation's support of our efforts and look forward to a productive series of assignments during fiscal year 2005. We are committed to continuing to work cooperatively with FDIC management as it carries out its vital mission to insure deposits, regulate financial institutions, and minimize the number and cost of institutional failures. We hope to serve the FDIC, the Congress, and the American people as a driving force in the reduction of financial risk to our Nation through successful accomplishment of the FDIC's mission.

cc: Internal Control Liaisons

Serving the FDIC
OIG Assignment Planning Framework

OIG MISSION

- Promote the economy, efficiency, and effectiveness of FDIC programs and operations.
- Protect against fraud, waste, and abuse.
- Assist and augment the FDIC's contribution to the stability of, and public confidence in, the Nation's financial system.

OIG STRATEGIC GOAL (Value and Impact)

OIG products will add value by achieving significant impact related to addressing issues of importance to the Chairman, the Congress, and the public.

OIG STRATEGIC OBJECTIVES (Value and Impact)

THE OIG WILL CONTRIBUTE TO ENSURING:

- **The protection of insured depositors from loss without recourse to taxpayer funding**
- **The safety and soundness of FDIC-supervised institutions**
- **The protection of consumers' rights and investment of FDIC-supervised institutions in their communities**
- **The achievement of recovery to creditors of receiverships**
- **The effective management of agency resources**

RISK-BASED MANAGEMENT & PERFORMANCE CHALLENGES

1. Adequacy of Corporate Governance in Insured Depository Institutions
2. Protection of Consumers' Interests
3. Management and Analysis of Risks to the Insurance Funds
4. Effectiveness of Resolution and Receivership Activities
5. Management of Human Capital
6. Management and Security of Information Technology Resources
7. Security of Critical Infrastructure
8. Management of Major Projects
9. Assessment of Corporate Performance
10. Cost Containment and Procurement Integrity

SERVING THE FDIC
OIG ASSIGNMENT PLANNING FRAMEWORK

PLANNED ASSIGNMENTS BY RISK-BASED MANAGEMENT & PERFORMANCE CHALLENGES*

Adequacy of Corporate Governance in Insured Depository Institutions

1. Material Loss Reviews
2. Examination Coverage of Financial Institutions' Anti-Money Laundering Programs
3. The FDIC's Examination Assessment of Interest Rate Risk
4. The FDIC's Preparedness for Assessing Capital Adequacy Under Basel II
5. The FDIC's Examination Assessment of Electronic Banking

Protection of Consumers' Interests

6. The FDIC's Efforts to Address Payday and Predatory Lending
7. Adequacy of the FDIC's CRA Examination Process
8. Examiner Assessment of Offshore Outsourcing of Data Services

Management and Analysis of Risks to the Insurance Funds

9. Assessment and Monitoring of Large Bank Risks to the Insurance Funds
10. Use of Banking Information Research and Analysis
11. The FDIC's Assessments and Calculation of the Reserve Ratio
12. Call Report Analytical Tools and Techniques
13. The FDIC's Risk-Related Premium System

Effectiveness of Resolution and Receivership Activities

14. DRR's Management of Hard-to-Sell Assets
15. DRR's Internal Loan Servicing
16. DRR's Management of Receivership Subsidiary Assets
17. DRR's Ongoing Efforts to Recover Unclaimed Deposits
18. DRR's Pre-Closing Planning Process

Management of Human Capital

19. Human Capital - Evaluation of the Corporate University
20. The FDIC's EEO Complaint Process
21. DRR's Workforce Planning

Management and Security of Information Technology Resources

22. Data Reliability of a DSC System
23. Security of Electronic Mail and Mail Servers
24. Security Controls over FDIC*connect*
25. Data Reliability of the NAIS
26. Application Controls Over the NAIS
27. System and Data Conversion Planning for the NFE
28. Training for NFE System Implementation
29. The FDIC's Software Configuration Control - Mainframe
30. Outside Agency Security
31. Independent Evaluation of the FDIC's Information Security Program – 2005
32. Application Controls Over the Risk-Related Premium System
33. Controls Over CHRIS Release III

Security of Critical Infrastructure

34. The FDIC's PBX Communications System
35. The FDIC's Emergency Operations Plan

Management of Major Projects

36. Virginia Square Phase II Building Project
37. Adequacy of Support for Board Cases
38. SDLC Audit of ASTEP
39. Project Management Office

Assessment of Corporate Performance

40. Follow-up of the FDIC's Corporate Planning Cycle
41. Implementation of E-Government Principles
42. Use of Performance Measures
43. The FDIC's Approach to Enterprise Risk Management
44. Operations of the Office of the Ombudsman
45. DSC's Scorecard for Evaluating the Performance of the Regions

Cost Containment and Procurement Integrity

46. Contractor Reviews and Audits
47. DIRM Contract Consolidation
48. Contract Solicitation, Management, and Oversight Processes
49. Use of Purchase Discounts
50. Information Technology Task Order Processing
51. Travel Cost Control
52. Implementation of Section 508 Requirements
53. Sharing Services with Other Banking Agencies

** Acronyms are defined within the discussions of the planned assignments.*

Table of Contents

Federal Deposit Insurance Corporation
Office of Inspector General
Office of Audits

Overview

The Office of Inspector General (OIG) is a key component in the Federal Deposit Insurance Corporation's (FDIC) risk management process. We continually strive to balance the risk-based requirements for professional audit and evaluation services with the resources available to accomplish our mission. Our fiscal year 2005 *Office of Audits Assignment Plan* reflects how we plan to achieve this balance under the assumption of relative stability in the FDIC's mission and environment. However, as history attests, the future is uncertain, and our real challenge will be to provide value-added services in a dynamic environment characterized by ever-present risks to the Nation's financial system.

The OIG's value-added process, which is depicted in Figure 1 on page 4, shows the many considerations that impact our determination of the assignments for the coming fiscal year. First and foremost, we are mindful of the FDIC's mission, the Chairman's priorities, and the Corporation's strategic planning and performance. Consideration of these elements is reflected in the OIG's Strategic Planning and Risk Analyses, Management and Performance Challenges, and Assignment Planning and Performance. In analyzing the risks associated with these elements, we have identified 10 management and performance challenges and the types of assignments needed to best address those challenges. Our assignments will yield results that, when communicated to FDIC management, are intended to enhance FDIC corporate governance and contribute to the Corporation's overall risk management activities. The value-added process also takes into consideration the corporate governance and risk management activities that occur in a dynamic environment. Accordingly, the OIG is constantly attuned to emerging issues and changes in the significance of known issues.

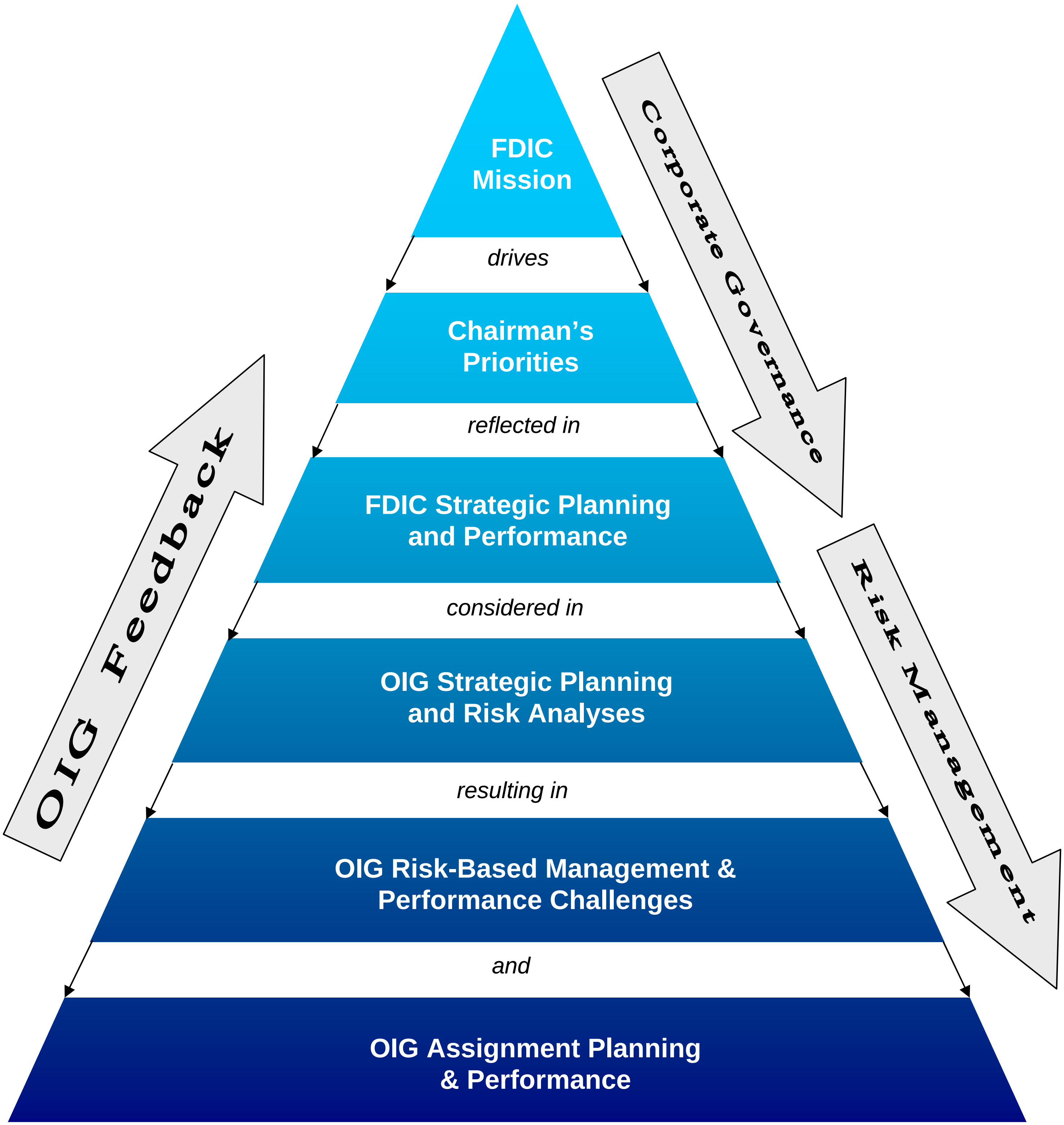
The assignments in our plan are presented within the framework of the following risk-based management and performance challenges:

1. Adequacy of Corporate Governance in Insured Depository Institutions
2. Protection of Consumers' Interests
3. Management and Analysis of Risks to the Insurance Funds
4. Effectiveness of Resolution and Receivership Activities
5. Management of Human Capital
6. Management and Security of Information Technology Resources
7. Security of Critical Infrastructure
8. Management of Major Projects
9. Assessment of Corporate Performance
10. Cost Containment and Procurement Integrity

The *Assignment Plan* lists and briefly describes—with a statement of risk and planned objectives—each of the 53 assignments that we plan to start during fiscal year 2005, by management and performance challenge and estimated start date. At the end of each management and performance challenge section, any associated assignments expected to be ongoing at September 30, 2004 are listed along with the stated objectives. A final section ("Other") shows planned assistance on the annual audits of the Corporation's financial statements. Additionally, the appendix lists all assignments, by Office of Audits directorate, and provides a point of contact for each directorate. In the spirit of the Reports Consolidation Act of 2000, in December 2004, the OIG will again complete a risk-based assessment of the most significant management and performance challenges facing the FDIC. As a result, the OIG's assignment planning and performance activities are subject to change to ensure that OIG feedback is given on the issues of highest significance to the Corporation.

Figure 1

OIG Value-Added Process



Adequacy of Corporate Governance in Insured Depository Institutions

Corporate governance is generally defined as the fulfillment of the broad stewardship of responsibilities entrusted to the Board of Directors, officers, and external and internal auditors of a corporation. A number of well-publicized announcements of business failures, including financial institution failures, have raised questions about the credibility of accounting practices and oversight in the United States. These recent events have increased public concern regarding the adequacy of corporate governance and, in part, prompted passage of the Sarbanes-Oxley Act of 2002. The public's confidence in the Nation's financial system can be shaken by deficiencies in the adequacy of corporate governance in insured depository institutions. For example, the failure of senior management, boards of directors, and auditors to effectively conduct their duties has contributed to some recent financial institution failures. In certain cases, board members and senior management engaged in high-risk activities without proper risk management processes, did not maintain adequate loan policies and procedures, and circumvented or disregarded various laws and banking regulations. In other cases, independent public accounting firms rendered unqualified opinions on the institutions' financial statements when, in fact, the statements were materially misstated. To the extent that financial reporting is not reliable, the regulatory processes and the FDIC's mission achievement (that is, ensuring the safety and soundness of the Nation's financial system) can be adversely affected. For example, essential research and analysis used to achieve the supervision and insurance missions of the Corporation can be complicated and potentially compromised by poor quality financial reports and audits. The insurance funds could be affected by financial institution and other business failures involving financial reporting problems. In the worst case, illegal and otherwise improper activity by management of insured institutions or their boards of directors can be concealed, resulting in potential significant losses to the FDIC insurance funds.

The FDIC has initiated various measures designed to mitigate the risk posed by these concerns, such as reviewing the bank's board activities and ethics policies and practices and reviewing auditor independence requirements. In addition, the FDIC reviews the financial disclosure and reporting obligations of publicly traded state nonmember institutions. The FDIC also reviews their compliance with Securities and Exchange Commission regulations and the approved and recommended policies of the Federal Financial Institutions Examination Council (FFIEC) to help ensure accurate and reliable financial reporting through an effective external auditing program and on-site FDIC examination. Other corporate governance initiatives include the FDIC's issuing Financial Institution Letters, allowing bank directors to participate in regular meetings between examiners and bank officers, maintaining a "Directors' Corner" on the FDIC Web site, and expansion of the Corporation's "Directors' College" program. Also, the Chairman has established leadership challenges for FDIC managers that strive to promote external confidence in the FDIC and the confidence of the FDIC's staff in addressing the strategic goals of the Corporation. The FDIC has taken significant strides; however, corporate governance issues remain a key concern.

Also, pursuant to the Economic Growth and Regulatory Reduction Act of 1996, the FDIC, along with the other members of the FFIEC, is engaged in reviewing regulations in order to identify outdated or otherwise unnecessary regulatory requirements imposed on insured depository institutions. The OIG supports prudent opportunities to reduce regulatory burdens on insured depository institutions along with consideration to the impact on the FDIC's ability to adequately supervise the institutions.

Five audits are planned in this management and performance challenge area.

1. Material Loss Reviews

The OIG of the respective primary federal regulator is required by the FDIC Improvement Act of 1991 to perform a material loss review (MLR) and report on insured depository institutions that incur losses to the deposit insurance funds, exceeding more than either $25 million or 2 percent of the institution's assets. An MLR must be completed within 6 months from the time it is determined that a failure or payment of financial assistance will result in a material loss to the insurance funds.

For failures of FDIC-supervised insured depository institutions, the objectives are to determine the (1) causes of the material loss and (2) adequacy of the FDIC's supervision of the institution, including implementation of prompt corrective action.

MLRs take priority over other audits because of the legislatively mandated 6-month completion timeframe; therefore, these reviews have the potential to impact other ongoing and planned assignments.

Estimated Assignment Start: As Required

2. Examination Coverage of Financial Institutions' Anti-Money Laundering Programs

The Bank Secrecy Act (BSA) of 1970, Public Law 91-508, codified to 31 U.S.C. Section 5311 et seq., requires financial institutions to maintain appropriate records and to file certain reports that are used in criminal, tax, or regulatory investigations or proceedings. Congress enacted the BSA to prevent banks and other financial service providers from being used as intermediaries for, or to hide the transfer or deposit of, money derived from criminal activity.

The audit objective is to determine whether the Division of Supervision and Consumer Protection (DSC) is adequately assessing the BSA program of financial institutions to mitigate money laundering risks.

Estimated Assignment Start: 1st Quarter FY 2005

3. The FDIC's Examination Assessment of Interest Rate Risk

On December 20, 1996, the FDIC adopted the revised Uniform Financial Institution Rating System (UFIRS). The UFIRS was amended to include a sixth component: Sensitivity to Market Risk. The "S" component in a bank's CAMELS examination ratings assesses the degree of interest rate risk taken; management's ability to identify, measure, monitor, and control that risk; and the effect that interest rate risk may have on capital and earnings. Many of the financial institutions supervised by the FDIC have significant amounts of interest-sensitive securities in their investment portfolios. Among these securities, the value of the obligations of government-sponsored enterprises, such as Fannie Mae, Freddie Mac, and the FHLBank System, are particularly sensitive to interest rate fluctuations in 10- and 30-year U.S. Treasury securities. A bank's participation in the sale or purchase of derivatives, interest rate swaps, and hedging activities involves sophisticated risks directly susceptible to overnight interest rate changes that can result in substantial declines in value.

The audit objective is to determine whether DSC safety and soundness examinations adequately assess institutions' sensitivity to interest rate changes.

Estimated Assignment Start: 2nd Quarter FY 2005

4. The FDIC's Preparedness for Assessing Capital Adequacy Under Basel II

The Basel Capital Accord requires that a bank have available as "regulatory capital" (through combinations of equity, loan-loss reserves, subordinated debt, and other accepted instruments) at least 8 percent of the value of its risk-weighted assets (for example, loans and securities and asset equivalent off-balance-sheet exposures (such as loan commitments, standby letters of credit, and obligations on derivatives contracts)). A bank's capital ratio—its regulatory capital as a proportion of its risk-weighted assets—and whether that ratio meets or exceeds the 8-percent minimum have become important indicators of an institution's financial strength. The definition of capital has evolved over the years in response to financial innovation. The definition of assets has also changed to address financial innovation, both on and off the balance sheet. From the perspective of U.S. supervisors, Basel I needs to be replaced, at least for the largest, most complex banks, for three major reasons: it has serious shortcomings as it applies to the large entities, the art of risk management has evolved at the largest banks, and the banking system has become increasingly concentrated. Over the last several years, the Basel Committee on Banking Supervision has been working on a new accord to reflect changes in the structure and practices of banking and financial markets. The proposed substitute (Basel II) for the current capital accord is more complex than its predecessor.

The audit objective is to determine the extent to which the FDIC has assessed the impact of the Basel II framework for capital regulation on competitiveness factors as well as on safety and soundness, including whether DSC has appropriately prepared for a more risk-sensitive framework for capital regulation, the evaluation of internal risk models, changes that may be needed in call reporting, and the impact of possible new capital floors on Prompt Corrective Action provisions.

Estimated Assignment Start: 2nd Quarter FY 2005

5. The FDIC's Examination Assessment of Electronic Banking

Management officials in the Division of Insurance and Research (DIR) have stated that "no area of banking has changed as significantly during the past ten years as Information Technology (IT). Insured institutions increasingly have made banking services and data available through automated teller machines and transactional websites." (*FDIC Outlook* magazine, Fall 2003.) The growing complexity of the IT environment and the potential for monetary losses increase the importance of IT security and electronic banking controls. The nature of the electronic service provided, such as bill payment, funds transfer, or other Internet electronic services may result in the collection or disbursement of funds that increase the bank's levels of credit, liquidity, transactional and reputational risks to new levels. The FDIC has positioned itself as a lead federal agency in the identification, assessment, and monitoring of these risks in banks through the examination process.

The audit objective is to determine whether DSC is adequately assessing institution controls and systems relating to electronic banking to preclude Internet frauds, such as identity theft, unauthorized funds transfers, and illegitimate funds or purchasing access.

Estimated Assignment Start: 3rd Quarter FY 2005

Ongoing Assignments

Effectiveness of Supervisory and Enforcement Actions

The audit objectives are to determine whether (1) timely actions are taken to issue supervisory and enforcement actions initiated by DSC and the FDIC Legal Division, (2) the actions comprehensively address the specific supervisory concerns of each case, and (3) the supervisory and enforcement actions achieve DSC's intended purposes before being rescinded.

Capital Provision Requirements Established Under Formal Enforcement Actions

The audit objective is to review the process used by DSC for determining capital provisions requirements established under formal enforcement actions placed on problem banks.

FDIC Supervision of Hudson United Bancorp BSA Compliance & Management of Failed Bank Assets

The overall audit objective is to determine whether the FDIC adequately fulfilled its responsibilities to monitor and ensure Hudson's compliance with the BSA. We will specifically review the (1) circumstances regarding the management of bank assets that Hudson acquired from the FDIC, (2) adequacy of the FDIC's supervisory actions at Hudson, and (3) FDIC's process for reporting BSA violations to the Treasury and law enforcement agencies.

Protection of Consumers' Interests

The FDIC's mission is to maintain public confidence in the Nation's financial system. The availability of deposit insurance to protect consumer interests is a very visible way in which the FDIC accomplishes this mission. However, the FDIC also serves as an advocate for consumers through its oversight of a variety of statutory and regulatory requirements aimed at protecting consumers from unfair and unscrupulous banking practices. The FDIC is legislatively mandated to enforce various statutes and regulations regarding consumer protection and civil rights with respect to state-chartered, non-member banks and to encourage community investment initiatives by these institutions. Some of the more prominent laws related to this area include the Truth in Lending Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, Fair Housing Act, Home Mortgage Disclosure Act, Equal Credit Opportunity Act, Community Reinvestment Act (CRA) of 1977, and Gramm-Leach-Bliley Act (GLBA).

The Corporation accomplishes its mission related to fair lending and other consumer protection laws and regulations by conducting compliance examinations, taking enforcement actions to address compliance violations, encouraging public involvement in the community reinvestment process, assisting financial institutions with fair lending and consumer compliance through education and guidance, and providing assistance to various parties within and outside of the FDIC.

The FDIC's examination and evaluation programs must assess how well the institutions under its supervision manage compliance with consumer protection and fair lending laws and regulations and meet the credit needs of their communities, including low- and moderate- income neighborhoods. The FDIC must also work to issue regulations that implement federal consumer protection statutes both on its own initiative and together with the other federal financial institution regulatory agencies. One important focus will be the GLBA because the Corporation must ensure that it has a quality program to examine institution compliance with privacy and other provisions of the Act.

The Corporation's community affairs program provides technical assistance to help banks meet their responsibilities under the CRA. One current emphasis is on financial literacy, aimed specifically at low- and moderate-income people who may not have had banking relationships. The Corporation's "Money Smart" initiative is a key outreach effort. The FDIC must also continue efforts to maintain a Consumer Affairs program by investigating consumer complaints about FDIC-supervised institutions, answering consumer inquiries regarding consumer protection laws and banking practices, and providing data to assist the examination function.

The Corporation's deposit insurance program promotes public understanding of the federal deposit insurance system and seeks to ensure that depositors and bankers have ready access to information about the rules for FDIC insurance coverage. Informing bankers and depositors about the rules for deposit insurance coverage fosters public confidence in the banking system by helping depositors to ensure that their funds are fully protected.

Protection of consumers' interests continues to be a challenge. A number of new consumer protection regulations have been introduced over the past several years. The emergence and continued expansion of electronic banking presents a challenge for ensuring consumers are protected. The number of reported instances of identity theft has ballooned in recent years. The Corporation will need to remain vigilant in conducting comprehensive, risk-based compliance examinations, analyzing and responding appropriately to consumer complaints, and educating individuals on money management topics, including identity protection.

Three audits are planned in this management and performance challenge area.

6. The FDIC's Efforts to Address Payday and Predatory Lending

In recent years a number of lenders have extended their risk selection standards to attract subprime loans. Among the various types of subprime loans, "payday loans" are now offered by an increasing number of insured depository institutions. Payday loans (also known as deferred deposit advances) are small-dollar, short-term unsecured loans that borrowers promise to repay out of their next paycheck or regular income payment (such as a social security check). Payday loans are usually priced at a fixed dollar fee, which represents the finance charge to the borrower. Because these loans have such short terms to maturity, the cost of borrowing, expressed as an annual percentage rate (APR), is very high. In a related vein, each year, millions of American consumers take out mortgage loans through mortgage brokers or lenders to purchase homes or refinance existing mortgage loans. While the majority of these transactions are legitimate and ultimately benefit borrowers, some have been found to be "predatory"—that is, to contain terms and conditions that ultimately harm borrowers.

The audit objectives are to determine whether the FDIC has (1) established an adequate program for identifying, assessing, and addressing the risks posed to consumers from payday and predatory lending practices and (2) adequately considered the impact of payday lending in conducting CRA performance evaluations.

Estimated Assignment Start: 2nd Quarter FY 2005

7. Adequacy of the FDIC's Community Reinvestment Act Examination Process

The CRA of 1977 (12 U.S.C. 2901) as amended, encourages each insured depository institution covered by the Act to help meet the credit needs of the communities in which it operates. The CRA requires that each federal financial supervisory agency assess the record of each covered depository institution in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations, and take that record into account when deciding whether to approve an application by the institution for a deposit facility.

The audit objectives are to determine whether (1) DSC consistently applies CRA examination procedures within and among its regional offices, (2) the CRA examination procedures are applied in a manner that ensures the resulting ratings provide an accurate measure of the institutions' performance, and (3) DSC's CRA examinations have a positive impact in encouraging institutions to meet community needs.

Estimated Assignment Start: 3rd Quarter FY 2005

8. Examiner Assessment of Offshore Outsourcing of Data Services

Traditional outsourcing to domestic third-party service providers or domestic affiliates has been done by financial institutions in the United States for many years. However, the use of offshore contractors has grown dramatically in the past few years due to the flexibility offered by new information technology (IT) and the prospect of lower costs. At the same time, consumers have become more concerned about privacy, and the abuse of personal data has increased as instances of fraud, such as identity theft, have become commonplace. Deloitte Consulting, LLP estimates that financial institutions that offshore achieve average cost savings of 39 percent, with one in four institutions surveyed achieving savings of more than 50 percent. Typically, financial institutions offshore non-core job functions, such as IT (specifically, software development and maintenance), administration, human resources, contact centers, call centers, and telemarketing. Deloitte estimates that $356 billion, or 15 percent, of the financial service industry's current cost base is expected to move offshore within the next 5 years.

The audit objective is to determine whether DSC examiners are adequately assessing the privacy risks of institutions' offshore outsourcing of data services.

Estimated Assignment Start: 3rd Quarter FY 2005

Ongoing Assignments

FDIC's Risk-Focused Compliance Examination Program

The audit objective is to determine whether the revised compliance examination program is resulting in examinations that are adequately planned and effective in assessing institutions' compliance with consumer protection laws and regulations.

Management and Analysis of Risks to the Insurance Funds

A primary goal of the FDIC under its insurance program is to ensure that its deposit insurance funds do not require augmentation by the U.S. Treasury. Achieving this goal is a considerable challenge given that the FDIC supervises only a portion of the insured depository institutions. The identification of risks to non-FDIC supervised institutions requires effective communication and coordination with the other federal banking agencies. The FDIC engages in an ongoing process of proactively identifying risks to the deposit insurance funds and adjusting the risk-based deposit insurance premiums charged to the institutions.

Recent trends and events continue to pose risks to the funds. From January 1, 2002 to August 27, 2004, 18 insured financial institutions failed, and the potential exists for additional failures. Although some failures may be attributable primarily or in part to economic factors, bank mismanagement and fraud have also been factors in the most recent failures. The environment in which financial institutions operate is evolving rapidly, particularly with the acceleration of interstate banking, new banking products and complex asset structures, and electronic banking. The industry's growing reliance on technologies, particularly the Internet, has changed the risk profile of banking. Continuing threats to the U.S. financial infrastructure have made business continuity planning an essential ingredient to sound risk management programs. The consolidations that may occur among banks, securities firms, insurance companies, and other financial services providers resulting from the GLBA pose additional risks to the FDIC's insurance funds. Also, institutions face challenges in managing interest rate risks in an environment of historically low interest rates. The Corporation's supervisory approach, including risk-focused examinations, must operate to identify and mitigate these risks and their real or potential impact on financial institutions to preclude adverse consequences to the insurance funds.

Another risk to the insurance funds results from bank mergers that have created "megabanks," or "large banks," which are generally defined as institutions with assets of over $25 billion, presenting a concentration risk to the funds. For many of these institutions, the FDIC is the insurer but is not the primary federal regulator. Megabanks offering new or expanded services also present challenges to the FDIC. For example, the failure of a megabank, along with the potential closing of closely affiliated smaller institutions, could result in losses to the deposit insurance funds that require significant increases in premium assessments from all insured institutions. With regard to the risks associated with "megabanks," or "large banks" for which the FDIC is the insurer but is not the primary federal regulator, in 2002, the FDIC initiated the Senior Examiner Program for the eight largest banks in the United States. One senior examiner is dedicated to each institution and participates in targeted reviews or attends management meetings. Also, case managers closely monitor such institutions through the Large Insured Depository Institutions Program's quarterly analysis and executive summaries. Additionally, case managers consistently remain in communication with their counterparts at the other regulatory agencies, frequently attending pre-examination meetings, post-examination meetings, and exit board meetings.

Further, because of bank mergers and acquisitions, many institutions hold both Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) insured deposits, obscuring the difference between the funds. There is ongoing consideration of merging the two insurance funds with the perceived outcome being that the merged fund would not only be stronger and better diversified but would also eliminate the concern about a deposit insurance premium disparity between the BIF and the SAIF. Assessments in the merged fund would be based on the risk that institutions pose to that fund. The prospect of different premium rates for identical deposit insurance coverage would be eliminated. The Corporation has worked hard to bring about deposit insurance reform, and the OIG supports the FDIC's continued work with the banking community and the Congress in the interest of eventual passage of reform legislation.

Adoption of Basel II poses a potential additional threat to the insurance funds due to the prospect of lower minimum capital requirements for large institutions. Basel I took only credit risks into account; Basel II will require that banks evaluate and measure other forms of risk, including operational risk. Banks will have to make capital provisions to effectively act as a contingency fund, to cover the direct and indirect losses that emergent operational risks could cause. The failure of at-risk institutions to fully adhere to this proposed contingency funding mechanism in place of higher minimum capital requirements constitutes a threat of increased insurance losses to the funds.

Another risk to the insurance funds relates to the designated reserve ratio. As of March 31, 2002, the BIF reserve ratio was at 1.23 percent, the first time since 1995 that the ratio had fallen below the statutorily mandated ratio of 1.25 percent. (If the BIF ratio is below 1.25 percent, in accordance with the Federal Deposit Insurance Act, the FDIC Board of Directors must charge premiums to banks that are sufficient to restore the ratio within 1 year. The Corporation must maintain or exceed the designated reserve ratio, as required by statute.) By June 30, 2002, the BIF reserve ratio was at 1.25 percent, precisely at the minimum mandated level. As of December 31, 2003, the BIF ratio was at 1.32 percent.

The process for setting deposit insurance premiums, which is closely related to the previous discussion of the designated reserve ratio, represents yet another significant risk to the insurance funds. Insurance premiums are generally assessed based on the funding requirements of the insurance funds independent of the financial risk to the funds for institutions that pose safety and soundness concerns. This approach has the impact of assessing premiums during economic downturns when banks are failing and are likely not in the best position to afford the premiums. Also, numerous institutions have benefited from being able to sharply increase insured deposits without contributions to the insurance funds commensurate with this increased risk. This situation can occur because the designated reserve ratio is not breached, thereby triggering across-the-board premiums. Risk-based premiums can provide the ability to better match premiums charged to institutions with related risk to the insurance funds.

Internally, the Corporation is currently operating under an internal control policy that predates many developments toward proactive risk management. Since the Corporation issued its internal control policy in February 1998, the U.S. Government Accountability Office (GAO) has issued *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999), which discusses five components of internal control and provides an overall framework for identifying and addressing major performance challenges and areas of greatest risk for fraud, waste, abuse, and mismanagement. Also, many organizations in the insurance industry and other organizations have begun using an Enterprise Risk Management (ERM) approach to managing not only financial risks, but also all business and compliance risks. ERM is a process that incorporates the five components of internal control and provides: (1) the mechanisms to help staff understand risk in the context of the entity's objectives and (2) assurance that the organization will be able to execute its business strategy and achieve its objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) recently issued a draft document that explains essential concepts and the interrelationship between ERM and internal control.

One evaluation and four audits are planned in this management and performance challenge area.

9. Assessment and Monitoring of Large Bank Risks to the Insurance Funds

Compared to just a decade ago, fewer but larger and much more complex institutions operate in the banking sector. For example, five banking organizations controlled 25 percent of domestic deposits at year-end 2003, compared to 16 companies a decade ago. To help address the risks posed by large banks, DSC has a Large Insured Depository Institutions Program and a Dedicated Examiner Program. With some procedural overlapping, the focus is to monitor large bank risks to the insurance funds.

The audit objective is to determine whether the FDIC's systems for assessing risk posed to the insurance funds from large banks are adequate.

Estimated Assignment Start: 1st Quarter FY 2005

10. Use of Banking Information Research and Analysis

One of the Corporation's primary goals is to ensure the viability of the deposit insurance funds. Identifying, addressing, and reporting risks to the deposit insurance funds is accomplished in part by producing regular reports that discuss developments affecting the risk profiles of FDIC-insured depository institutions. These reports describe key economic, market, and industry trends and are distributed to the FDIC staff as well as to all insured depository institutions and other financial institution regulators. These reports help ensure the effectiveness of examinations by sharpening the examiner's focus on the areas of greatest risk as well as provide a basis for future policy-making. Further, the Chairman has indicated that he wants the FDIC to be viewed as the primary source of research and industry information for the banking industry and the other banking regulators. In 2003, the FDIC opened its Risk Analysis Center (RAC). The RAC is a joint initiative between several FDIC divisions and is managed and staffed by DSC, DIR, and the Division of Resolutions and Receiverships (DRR). The RAC serves as a clearinghouse for information generated by a number of other FDIC business processes.

The evaluation objective is to evaluate the usefulness of banking information and research analysis performed by the DIR, including determining whether (1) customers, including external agencies, are fully identified, (2) clients' information needs are determined, and (3) useful information is routinely provided to policy makers, case managers, and examiners.

Specifically, for the RAC, we will (1) determine goals, objectives, and costs of the RAC and (2) assess whether the FDIC has established outcome-based performance measures to assess the success of the RAC.

Estimated Assignment Start: 1st Quarter FY 2005

11. The FDIC's Assessments and Calculation of the Reserve Ratio

BIF and SAIF assessments have roots in the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991, which directed the FDIC to implement a risk-based insurance system and to maintain each fund at a designated reserve ratio of 1.25 percent (the ratio of mandated reserves to estimated insured deposits). When a fund's reserve ratio falls below 1.25 percent, the FDIC must raise premiums to bring the reserve ratio back to the 1.25 percent within a year. If the 1.25 percent ratio in not achieved, the FDIC must assess premiums of at least 23 cents per $100 of deposits (23 basis points) until the reserve ratio is met. If the reserve ratio is not met within a year, the FDIC must establish a schedule for returning the reserve ratio within 15 years.

The audit objectives are to determine whether (1) the Division of Finance has proper controls in place to accurately calculate, collect, and process assessments of insured depository institutions and (2) the funds' reserve ratios are properly determined.

Estimated Assignment Start: 1st Quarter FY 2005

12. Call Report Analytical Tools and Techniques

The FDIC collects, corrects, updates and stores Reports of Condition and Income data submitted by all insured national and state nonmember commercial banks and state-chartered savings banks on a quarterly basis. Reports of Condition and Income data are a widely used source of timely and accurate financial data regarding a bank's condition and the results of its operations. The information is extensively used by the bank regulatory agencies in their daily offsite bank monitoring activities. Reports of Condition and Income data are also used by the public, the Congress of the United States, state banking authorities, researchers, bank rating agencies and the academic community. The FDIC is fully responsible for maintaining an accurate and up-to-date Reports of Condition and Income data base readily available to all users. The use of Call Reports in generating information for safety and soundness examinations is vital because financial ratios and trends are essential to assessing the financial condition of the banks, preplanning bank examinations, and comparing data to other bank or peer group data.

The audit objective is to determine whether DSC is effectively using Call Report data to analyze institution performance and trends for offsite monitoring purposes and for assessing an institution's condition during safety and soundness examinations.

Estimated Assignment Start: 2nd Quarter FY 2005

13. The FDIC's Risk-Related Premium System

The FDIC Board of Directors reviews BIF and SAIF premium rates semiannually. The FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the BIF or the SAIF. To assess premiums on individual institutions, the FDIC uses the Risk-Related Premium System (RRPS) to assign each insured institution to one of three capital groups and to one of three supervisory subgroups for the purposes of determining an assessment risk classification. Call Report data and Thrift Financial Reports are used in this process. The model identifies institutions with atypically high-risk profiles among those in the best-rated category to determine whether there are unresolved supervisory concerns regarding the risk management practices of these institutions.

The audit objective is to determine whether the RRPS used by the DIR for charging insurance premiums is adequately tied to risks identified in recent examinations. (This audit will be performed concurrently with the Application Controls over the RRPS audit (see page 28) to maximize efficiency.)

Estimated Assignment Start: 3rd Quarter FY 2005

Ongoing Assignments

DSC's Planning and Scoping for Safety and Soundness Examinations

The overall audit objective is to determine whether DSC adequately considers risk in planning and scoping safety and soundness examinations and, in so doing, properly allocates examination resources to the areas of most significant risk. The audit is focusing on DSC's implementation of the Maximum Efficiency, Risk-focused, Institution Targeted (MERIT) guidelines.

Effectiveness of Resolution and Receivership Activities

One of the FDIC's corporate responsibilities is planning and efficiently handling the franchise marketing of failing FDIC-insured institutions and providing prompt, responsive, and efficient resolution of failed financial institutions. These activities maintain confidence and stability in our financial system.

The FDIC has outlined primary goals for three business lines (listed below) that are relevant to the three major phases of its work: Pre-Closing, Closing, and Post-Closing of failing or failed institutions. Each is accompanied by significant challenges:

a. Deposit Insurance. The FDIC must provide customers of failed financial institutions with timely access to their insured funds and financial services. A significant challenge in this area is to ensure that FDIC deposit insurance claims and payment processes are prepared to handle large institution failures.

b. Resolutions. As the FDIC seeks to resolve failed institutions in the least costly manner, its challenges include improving the efficiency of contingency planning for institution failures and improving internal FDIC communication and coordination as well as communication with the other primary federal regulators. These improvements will help ensure timely access to records and optimal resolution strategies.

c. Receivership Management. The FDIC's goal is to manage receiverships to maximize net return toward an orderly and timely termination and provide customers of failed institutions and the public with timely and responsive information. Related challenges include improving the efficiency of the receivership termination process, improving claims processing, continual assessment of recovery strategies, improving investigative activities, collection of restitution orders, and charging receiverships for services performed under the Receivership Management Program.

Five audits are planned in this management and performance challenge area.

14. DRR's Management of Hard-to-Sell Assets

Assets from failed insured depository institutions can be included in two categories: (1) those that sell with the institution as part of its franchise value and (2) those that remain with the FDIC receivership. Assets that are not acquired by the assuming institution or another purchaser often have unique traits that make them difficult to market. We refer to these assets as hard-to-sell assets. Such assets include those with environmental, affordable housing, documentation, and/or legal issues. Certain unique assets, such as golf courses or river gambling boats, for which there may not be broad market appeal, are also included in this classification.

The audit objective is to determine whether (1) DRR adequately manages hard-to-sell assets in order to protect the asset values and (2) costs incurred to manage and market hard-to-sell assets are reasonable.

Estimated Assignment Start: 1st Quarter FY 2005

15. DRR's Internal Loan Servicing

Section 123 of FDICIA requires the FDIC, as conservator or receiver, to sell or dispose of assets in a manner that maximizes the net present value return and minimizes the amount of any loss realized in the resolution. Loans that are not purchased by the acquiring institution are either assigned to an external loan servicer or an account officer in the Financial Processing Branch in Dallas, Texas. The account officers assigned to the loans are responsible for performing the loan servicing until the loan is liquidated (sold, paid-off, etc.). Loan servicing includes: maintaining loan files, collecting and accounting for loan payments, managing escrow accounts for taxes and insurance, initiating and conducting collection and/or foreclosure efforts on delinquent loans, and providing service for customer requests. Account officers use the National Processing System to record the transactions and activity for the loans serviced internally.

The audit objective is to determine whether DRR is adequately managing and processing internally serviced loans.

Estimated Assignment Start: 1st Quarter FY 2005

16. DRR's Management of Receivership Subsidiary Assets

When an institution closes, a receivership is created. The resulting receivership can become the parent corporation to one or more subsidiaries created by the failed institution. A subsidiary is a separate and distinct legal entity, subject to the laws of the state where the subsidiary is incorporated. The resolution strategy must be consistent with maintaining this corporate separateness while striving to maximize recovery from disposition of the subsidiary and its attendant assets in the most expeditious manner. As the receiver/parent, the FDIC can be held liable if it fails to maintain the subsidiaries and related assets as separate and distinct legal entities.

The audit objective is to determine whether the FDIC adequately values and protects its interest in receivership subsidiary assets.

Estimated Assignment Start: 2nd Quarter FY 2005

17. DRR's Ongoing Efforts to Recover Unclaimed Deposits

The Unclaimed Deposit Amendments (UDA) to the Federal Deposit Insurance Act, regarding procedures for owners of unclaimed deposits, became effective on June 28, 1993. UDA provided that owners of unclaimed deposits in institutions closed from January 1, 1989 through June 28, 1993 but not terminated as of June 28, 1993 must claim their deposits from the FDIC before the Corporation terminates those receiverships. To help accomplish this process, the FDIC established an Internet database with information on these unclaimed deposits. For institutions closed after June 28, 1993, owners of unclaimed deposits have 18 months to claim funds from the FDIC or acquiring institution. If not claimed by the end of the 18-month period, the acquiring institutions must transfer the unclaimed funds back to the

FDIC. The FDIC developed the Unclaimed Deposits Reporting System to comply with UDA tracking and reporting requirements. As of May 1, 2004, the FDIC was tracking unclaimed deposits related to 146 failed financial institutions, involving 89,659 accounts totaling approximately $29 million.

The audit objective is to determine whether the FDIC has adequate systems in place to accurately track the recovery of previously unclaimed deposits.

Estimated Assignment Start: 2nd Quarter FY 2005

18. DRR's Pre-Closing Planning Process

Section 131 of FDICIA incorporated provisions for prompt corrective action (PCA). PCA requires more timely intervention by the primary regulator to minimize losses to the deposit insurance funds. PCA requires that the regulator close an institution within 90 days after determining that the institution is "critically undercapitalized" and does not have an adequate capital restoration plan. To accomplish the objectives of these statutory provisions, DRR seeks prompt and sufficient access to a failing institution in order to reduce or eliminate losses to the deposit insurance funds. The FDIC's resolution process is triggered upon the primary regulator's notification to an institution that it is critically undercapitalized. DRR then has up to the 90-day PCA limit to collect information and plan for the resolution.

The audit objective is to determine the adequacy of DRR's pre-closing planning processes. The audit will concentrate on pre-closing planning for institutions that were closed for reasons other than fraud.

Estimated Assignment Start: 4th Quarter FY 2005

Ongoing Assignments

Receivership Dividend Payments

The audit objective is to determine whether dividends paid by the FDIC are properly authorized and adequately supported.

Asset Write-Offs From Failed Insured Depository Institutions

The audit objective is to determine whether decisions to write off assets from failed insured depository institutions were properly justified and adequately supported.

Management of Human Capital

Human capital issues pose significant elements of risk that interweave all the management and performance challenges facing the FDIC. The FDIC has been in a downsizing mode for the past 10 years as the workload from the banking and thrift crises of the late l980s and 1990s has been accomplished. A number of division mergers and reorganizations took place, and the Corporation concluded its 2002 buyout/retirement incentive programs. These incentive programs achieved a reduction of 699 staff and projected annual savings of $80 million in future operating costs. In total, over the past 10+ years, the workforce (combined from the FDIC and the Resolution Trust Corporation) has decreased from approximately 23,000 in 1992 to approximately 5,300 as of July 31, 2004.

The Corporation hopes to substantially complete required downsizing, identify an appropriate skills mix, and correct any existing skills imbalances. To do so, the Corporation continues to carry out other features of its comprehensive program such as solicitations of interest, reassignments, retraining, outplacement assistance, and possible reductions-in-force. The Corporation has also predicted that about 20 percent of FDIC employees will be eligible to retire within the next 5 years. As the Corporation adjusts to a smaller workforce, it must continue to ensure the readiness of its staff to carry out the corporate mission, including through succession planning and other human capital initiatives.

The Corporation must also work to fill key vacancies in a timely manner, engage in careful succession planning, and continue to conserve and replenish the institutional knowledge and expertise that has guided the organization over the past years. A need for additional outsourcing may arise, and hiring and retaining new talent will be important. Hiring and retention policies that are fair and inclusive must remain a significant component of the corporate diversity plan. Designing, implementing, and maintaining effective human capital strategies are critical priorities and must be the focus of centralized, sustained corporate attention.

As the FDIC moves past an era that has been characterized by continual downsizing, the demands placed on the Corporation by a rapidly changing external environment require a dynamic and strategic approach to managing the Corporation's human capital. The FDIC must remain flexible in managing changes in the Corporation's workload and business processes that may have an impact on the size and skill composition of its workforce, whether these changes are planned or unanticipated. It is incumbent on all executives and managers in the FDIC to continually assess the goals and objectives, workload, and staffing of their organizations and to take appropriate steps to ensure that they have a workforce with the right experience and skills to fulfill their mission. It is imperative that the Corporation's business planning and human resources processes incorporate effective means to manage such changes in the size and skill composition of the FDIC workforce in order to promote efficiency and productivity and diminish the possibility of a future RIF.

The FDIC has undertaken significant efforts to address skill levels and maintain the preservation of institutional knowledge by creating the FDIC Corporate University. The following five Schools comprise the Corporate University: (1) Supervision and Consumer Protection, (2) Resolutions and Receiverships, (3) Insurance, (4) Leadership Development, and (5) Corporate Operations.

Further, the Division of Administration manages the Center for Career and Educational Services, which strives to prepare employees to more effectively manage their careers by offering developmental programs, career counseling, forums, workshops, and seminars.

In addition, the Division of Information Resources Management (DIRM) initiated a priority project called the Comprehensive Information Technology (IT) Program Review. One aspect of this effort is an assessment of human capital needs and a plan to identify and address any shortfalls in staff resources or skills mix for the IT security program. The human capital staffing plan and its inclusion in the System Security Management Tactical Plan are targeted for completion in August 2004. Until an assessment is performed and a human capital plan is developed and tracked, the FDIC is at risk of not having the appropriate staffing resources to manage the IT security program.

Two evaluations and one audit are planned in this management and performance challenge area.

19. Human Capital – Evaluation of the Corporate University

In April 2002, an interdivisional Task Force and a number of subgroups were formed by the FDIC's Human Resources Committee to conduct research into recognized corporate universities and investigate new ways to provide learning and developmental opportunities that will meet the FDIC's unique needs. Based on its research, the Task Force created a plan for the establishment of the Corporate University.

The goals of establishing the Corporate University were to (1) promote a corporate identity so that employees understand the FDIC's mission and are better able to work as a team; (2) enhance each employee's performance in his or her primary job assignments; and (3) broaden employees' awareness of the FDIC's major business lines so that the FDIC can adapt quickly and effectively to changing workload priorities. Based on the results of the Task Force's efforts, the Corporation launched the Corporate University in February 2003 to serve as the training and employee development arm of the FDIC.

The evaluation objective is to evaluate (1) the degree to which the FDIC's Corporate University has implemented training programs and other developmental opportunities to help FDIC employees build the competencies needed to achieve its mission and strategic goals and (2) the overall cost effectiveness of the Corporate University structure in comparison to initial goals and industry benchmarks.

Estimated Assignment Start: 1st Quarter FY 2005

20. The FDIC's Equal Employment Opportunity Complaint Process

It is the FDIC's policy to provide equal employment opportunities for employees and applicants for employment, regardless of race, color, age, religion, sex, national origin, or any physical or mental disability. In accordance with the Equal Employment Opportunity Commission, the FDIC provides an administrative process for resolving discrimination complaints for individuals.

The evaluation objective is to evaluate the FDIC's progress in improving the discrimination complaint resolution process and reducing its backlog of formal complaints.

Estimated Assignment Start: 3rd Quarter FY 2005

21. DRR's Workforce Planning

DRR's mission is to plan and efficiently handle the resolutions of failing FDIC-insured institutions and to provide prompt, responsive, and efficient administration of failing and failed FDIC-insured institutions in order to maintain confidence and stability in the Nation's financial system. DRR's workforce planning activities occur simultaneously with the establishment of core/platform staffing levels identified during the FDIC's budget process. Much of the workforce planning activities in DRR are tied to the projected failures and near-failures of FDIC-insured depository institutions. DRR uses projected failures and resolutions to establish workload and budget data for various activities within DRR.

The audit objective is to determine whether the assumptions used by DRR as a basis for establishing its core/platform staffing levels are adequate and current.

Estimated Assignment Start: 4th Quarter FY 2005

Ongoing Assignments

Human Capital – Workforce Planning

The evaluation objectives are to determine if the Corporation's workforce planning aligns the organization's human capital with its current and future mission and programmatic goals and if the corporation has long-term strategies for acquiring, developing and retaining staff to achieve programmatic goals. We are focusing our efforts on DSC to determine whether DSC has (1) long-term strategies for acquiring, developing and retaining staff to achieve programmatic goals and (2) an approach to workforce planning based on mission needs and customer expectations.

Management and Security of Information Technology Resources

IT continues to play an increasingly greater role in every aspect of the FDIC mission. As corporate employees carry out the FDIC's principal business lines of insuring deposits, examining and supervising financial institutions, and managing receiverships, the employees rely on information and corresponding technology as an essential resource. Information and analysis on banking, financial services, and the economy form the basis for the development of public policies and promote public understanding and confidence in the Nation's financial system. IT is a critical resource that must be safeguarded.

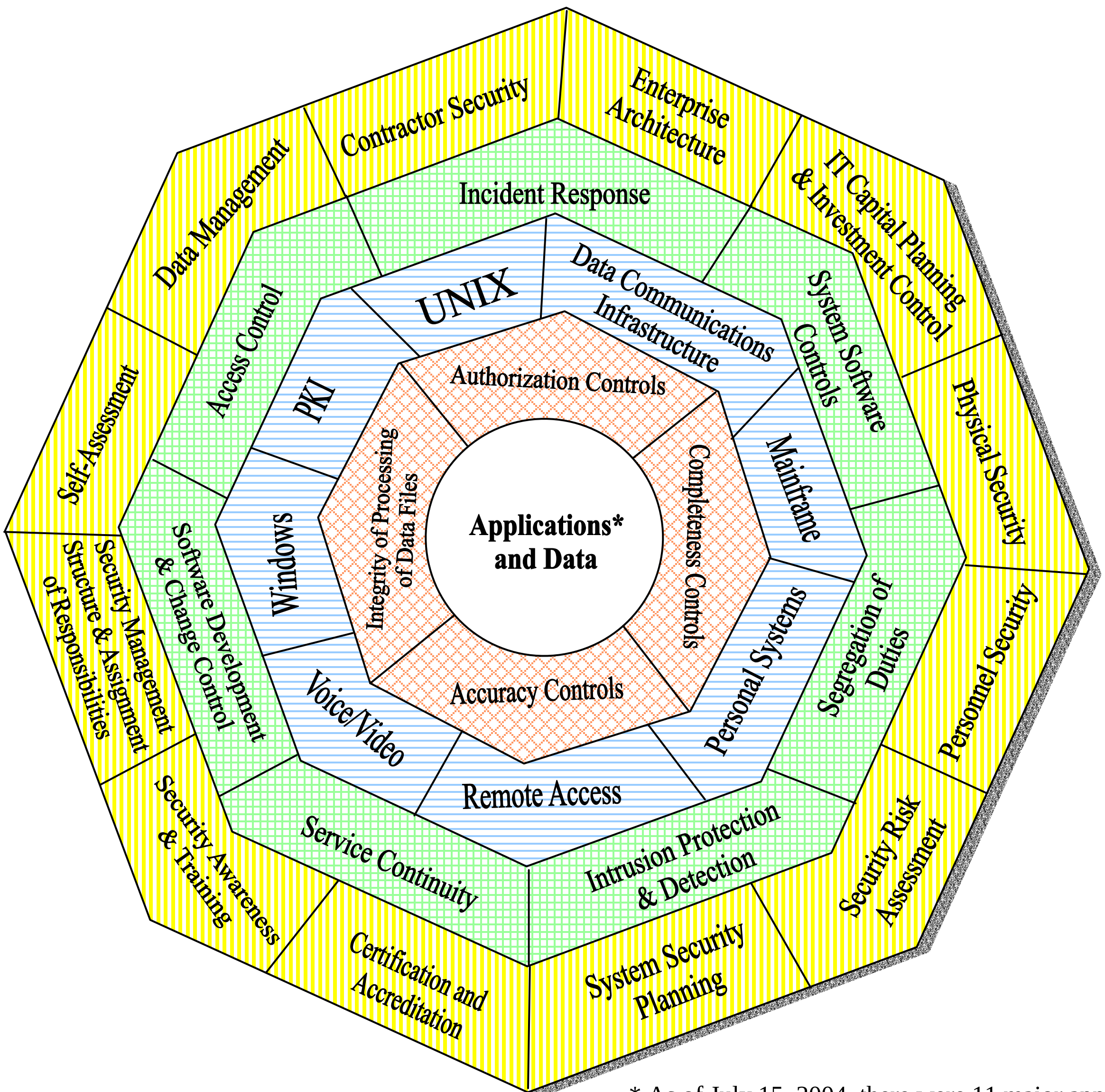
Accomplishing IT goals efficiently and effectively requires sound IT planning and investment control processes. The Corporation's 2004 IT budget is approximately $230 million. The Corporation must constantly evaluate technological advances to ensure that its operations continue to be efficient and cost-effective and that it is properly positioned to carry out its mission. While doing so, the Corporation must continue to respond to the impact of laws and regulations on its operations. Management of IT resources and IT security has been the focus of several laws, such as the Paperwork Reduction Act, the Government Information Security Reform Act (GISRA), and the Federal Information Security Management Act (FISMA) of 2002. Similar to the requirements of GISRA, FISMA requires each agency to report on the adequacy and effectiveness of information security policies, procedures, and practices and compliance with information security requirements.

The Corporation has worked to implement many sound information system security controls but has not yet completed the integration of these controls into an entity-wide program. Additionally, continued attention is needed in efforts to identify sensitive data, plan for and fund essential security measures, incorporate security requirements in FDIC contracts, enhance software configuration management, and measure the overall performance of the information security program. Frequently, security improvements at the FDIC were the result of a reaction to specific audit and review findings, rather than the result of a comprehensive program that provided continuous and proactive identification, correction, and prevention of security problems. Also, the FDIC has made significant progress in the formation of an enterprise-wide IT architecture that maps the current and "to-be" states of business processes and the supporting information systems and data architecture. However, the FDIC has not completed a fully integrated enterprise architecture outlining the information management concepts the FDIC intends to follow to keep pace with the innovative use of technology in the banking industry. Figure 2 on page 24 depicts critical aspects of the FDIC's information security environment and each planned assignment is keyed to a particular environmental area.

We concluded in our 2003 Security Act evaluation report that the FDIC has made significant progress in improving its information security operations in recent years. However, new security requirements have "raised the bar" for measuring success of the FDIC's security program. Our evaluation report contains specific steps intended to further the Corporation's efforts to develop and implement information security controls that provide assurance of adequate security for its information resources. Thus, management and security of information technology resources continue to warrant management attention.

Twelve audits are planned in this management and performance challenge area.

Figure 2
Information Security Environment



* As of July 15, 2004, there were 11 major applications.

Entity-Wide Security

General Controls

General Support Systems

Application Controls

Applications and Data

22. Data Reliability of a DSC System (Applications and Data)

The FDIC's Division of Supervision and Consumer Protection (DSC) generates, transmits, and uses supervised bank and bank holding company performance and safety and soundness data. On a daily basis, DSC management makes important decisions on matters relating to the supervision of banks, staffing levels, and budgetary issues based on the reliability of data generated by DSC/Division of Information Resources Management (DIRM) and the Division of Insurance and Research (DIR) systems. The FDIC also shares data with other financial regulatory agencies that may influence DSC's management decision making processes.

The audit objective is to determine whether a selected system used by DSC is providing accurate and reliable data for management decisions.

Estimated Assignment Start: 1st Quarter FY 2005

23. Security of Electronic Mail and Mail Servers (General Controls)

Electronic mail (e-mail) is used extensively within the Corporation for operational and business communications. Sensitive data are often sent by e-mail within the Corporation as well as between the FDIC and outside entities. It is critical to protect information sent by e-mail from unauthorized use, disclosure, modification, or destruction.

The Corporation's e-mail system is based on the use of mail/exchange servers and Microsoft Exchange 2003 and Outlook software products. FDIC employees can access the Outlook electronic mail either from within the Corporation or remotely by a workstation (desktop or laptop). FDIC employees also use e-mail when communicating with those outside of the Corporation, as do third parties when communicating with the FDIC. These third parties include state banking officials, financial institution officers, and outside service providers (contractors).

The overall audit objective is to determine whether the controls over the e-mail system are adequate to ensure the confidentiality, availability, and integrity of sensitive data. As part of our audit, we will examine: (1) the FDIC's current practices for securing emails containing sensitive data, including existing policies and procedures; (2) the FDIC's technical controls over the exchange servers; and (3) the efficiency and effectiveness of encryption software.

Estimated Assignment Start: 1st Quarter FY 2005

24. Security Controls Over FDIC*connect* (Applications and Data)

FDIC*connect* provides a framework for developing and implementing Web-based applications that have requirements for interfacing and performing data exchanges with financial institutions. FDIC*connect* is a separate FDIC Internet domain that resides outside of the FDIC's firewall. The primary objective of the FDIC*connect* project is to develop a secure business channel between the FDIC and its insured institutions for processing financial and reporting transactions. FISMA requires each agency to develop, document, and implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency.

The audit objective is to determine whether adequate controls exist to ensure secure communication between the FDIC and its insured institutions.

Estimated Assignment Start: 1^{st} Quarter FY 2005

25. Data Reliability of the National Asset Inventory System
(☐ Applications and Data)

Section 123 of FDICIA requires the FDIC, as conservator or receiver, to sell or dispose of assets in a manner that maximizes the net present value return and minimizes the amount of any loss realized in the resolution. To ensure that receivership assets are managed, marketed, and liquidated to maximize net returns, a complete and accurate inventory of assets is necessary. The National Asset Inventory System (NAIS) is the FDIC's comprehensive asset inventory database system and includes a history of all assets from the initial acquisition at the failed financial institution closing to final disposition. NAIS also generates standardized reports for senior-level decision makers and asset management groups within the FDIC. Management relies on information obtained from NAIS to make important decisions, such as type and timing of assets sales offerings and core staffing needs.

The audit objective is to determine whether NAIS is providing accurate and reliable data for management decisions. (This audit will be performed concurrently with the Application Controls for the NAIS audit (see below) to maximize efficiency.)

Estimated Assignment Start: 1^{st} Quarter FY 2005

26. Application Controls Over the National Asset Inventory System
(☐ Applications and Data)

The NAIS is the backbone component of the FDIC Consolidated Asset Systems Modernization Program. NAIS is a repository of information on all FDIC assets currently being managed by servicers and other entities external and internal to the FDIC. The system's research and reporting facilities enable users to query the database by loan, property, or borrower information. NAIS also generates standardized reports for senior-level decision makers and asset management groups within the FDIC.

The audit objective is to determine whether the application operates effectively and provides appropriate confidentiality, integrity, and availability through the use of cost-effective management, personnel, operational and technical controls. (This audit will be performed concurrently with the Data Reliability of the NAIS audit (see above) to maximize efficiency.)

Estimated Assignment Start: 1^{st} Quarter FY 2005

27. System and Data Conversion Planning for the New Financial Environment (Applications and Data, Application Controls)

The New Financial Environment (NFE) project is a major corporate initiative to enhance the FDIC's ability to meet current and future financial management and information needs. The project involves implementing a new commercial-off-the-shelf (COTS) software package to replace the FDIC's current 30+ financial systems. The most significant of these systems are based on the Walker Interactive Systems, Inc.'s Tamris software products. The FDIC executed a multi-year contract with Accenture in September 2002 to replace the existing financial systems with PeopleSoft Financials Suite release 8.4. As part of the NFE implementation in 2005, system and data conversion plans must be prepared. These plans would include the steps and the schedule of replacing the legacy systems and converting the data from the legacy systems to the PeopleSoft-based system.

The audit objective is to determine whether the system and data conversion plans are adequate to minimize the risk of errors and omissions during NFE implementation.

Estimated Assignment Start: 1st Quarter FY 2005

28. Training for New Financial Environment System Implementation (Entity-Wide Security, General Controls)

The FDIC's goal has been to keep customization of the PeopleSoft COTS for the NFE project to no more than 5 percent. Because the PeopleSoft environment differs dramatically from the current operating environment, this 95 percent usage of the standard PeopleSoft software will require a significant amount of training because of business process changes. Such Training is in addition to learning how to use a new software product.

The audit objective is to determine whether an adequate training program for NFE implementation has been developed for the potential system users.

Estimated Assignment Start: 2nd Quarter FY 2005

29. FDIC's Software Configuration Control – Mainframe (General Controls)

The FDIC's mainframe computing platform supports a number of critical financial, supervision, and other applications. It is important to control the configuration of the software for these applications to maintain system integrity. Given the complexity and the size of most mainframe applications, it is essential that a configuration management tool be used to track and control software modifications and version releases. DIRM has purchased and installed a configuration management tool called Endevor.

The audit objective is to determine whether DIRM is adequately using Endevor to maintain the integrity of application software on the mainframe platform.

Estimated Assignment Start: 2nd Quarter FY 2005

30. Outside Agency Security (General Controls)

The FDIC shares sensitive information and connectivity with a number of other federal entities, including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Finance Center. The OIG's Independent Evaluation of the FDIC's Information Security Program for 2003 disclosed that the FDIC had not established memorandums of understanding to provide an additional level of assurance that the outside organizations implement sound security practices such as maintaining current security patches, detecting unauthorized file modifications, and using anti-virus software.

The audit objective is to determine whether adequate controls exist to ensure secure access of FDIC information resources from outside agency users.

Estimated Assignment Start: 2nd Quarter FY 2005

31. Independent Evaluation of the FDIC's Information Security Program-2005 (Significant environmental aspects will be included)

On December 17, 2002, the President signed into law H.R. 2458, *the E-Government Act of 2002* (Public Law 107-347). Title III of the Act is the Federal Information Security Management Act of 2002 (FISMA). FISMA permanently authorized and strengthened the information security program, evaluation, and reporting requirements established by GISRA, which expired in November 2002. Under FISMA, agency heads are responsible for providing information security protections commensurate with the risk and magnitude of harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems. As with GISRA, federal agencies are responsible for performing annual reviews and independent evaluations of the adequacy and effectiveness of their information security programs and practices and must report the results to the Office of Management and Budget. The independent evaluations are to be performed by the agency's Inspector General or by an independent external auditor as determined by the Inspector General.

The audit objective is to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the requirements of FISMA and related information security policies, procedures, standards, and guidelines.

Estimated Assignment Start: 3rd Quarter FY 2005

32. Application Controls Over the Risk-Related Premium System (Applications and Data)

FDICIA requires that the FDIC assess deposit insurance premiums based on the risks that institutions present to the deposit insurance funds. The legacy Risk-Related Premium System (RRPS) obtains institutions' capital ratios and supervisory evaluation ratings and uses the semiannual risk classification schedule to calculate and store institutions' current risk ratings. RRPS computes risk ratings based on data from such sources as the Call Report, Thrift Financial Report, examination data, and input from FDIC Headquarters. DIR's Assessments Branch uses the risk rating information to determine the final assessment rate for deposit insurance premiums for each financial institution. As of April 2004, the FDIC had identified this application as both a major application containing sensitive data and a mission-critical system.

The audit objective is to determine whether the application operates effectively and provides appropriate confidentiality, integrity, and availability through the use of cost-effective management, personnel, operational and technical controls. (This audit will be performed concurrently with the FDIC's RRPS audit (see page 16) to maximize efficiency.)

Estimated Assignment Start: 3rd Quarter FY 2005

33. Controls Over Corporate Human Resources Information System Release III (Applications and Data)

The Corporate Human Resources Information System (CHRIS) provides an integrated, automated system that supports the FDIC's core human resource business functions and information requirements. CHRIS was a Division of Administration, Personnel Services Branch initiative to replace multiple standalone user interfaces on separate databases with one common interface and a centralized database. CHRIS does not replace the National Finance Center (NFC) as the payroll provider and system of record but does provide the ability to transmit personnel and payroll data to the NFC.

The audit objective is to determine whether the application operates effectively and provides appropriate confidentiality, integrity, and availability through the use of cost-effective management, personnel, operational and technical controls.

Estimated Assignment Start: 3rd Quarter FY 2005

Ongoing Assignments

Follow-up of ViSION-Application Controls

The audit objective is to review the progress that DSC and DIRM are making in addressing the recommendations in an audit report issued by the OIG in July 2004.

Management Controls Over the NFE-Rebaselined System Development Project

The audit objective is to determine whether the FDIC has established adequate management controls over the rebaselined NFE project. Specifically, we are reviewing controls over project scope, schedule, cost, quality, and risk management practices.

Security of Critical Infrastructure

The adequate security of our Nation's critical infrastructures has been at the forefront of the federal government's agenda for many years. Specifically, the President's Commission on Critical Infrastructure Protection (established in July 1996) was tasked to formulate a comprehensive national strategy for protecting the Nation's critical infrastructure from physical and "cyber" threats. Included among the limited number of systems whose incapacity or destruction were deemed to have a debilitating impact on the defense or economic security of the nation was the banking and finance system. With the increased consolidation and connectivity of the banking industry in the years since 1996, and with the new awareness of the Nation's vulnerabilities to terrorist attacks since September 11, 2001, the security of the critical infrastructure in the banking industry is even more important.

On December 17, 2003, the President signed Homeland Security Presidential Directive (HSPD) – 7, *Critical Infrastructure Identification, Prioritization and Protection*. HSPD – 7 established a national policy for federal departments and agencies to identify and prioritize United States critical infrastructure and key resources and to protect them from terrorist acts. On June 17, 2004, the Office of Management and Budget (OMB) issued Memorandum M-04-15, *Development of the HSPD-7 Critical Infrastructure Protection Plans to Protect Federal Critical Infrastructures and Key Resources*. The memorandum provides guidance regarding the format and content of critical infrastructure protection plans that federal agencies are required to submit to the OMB. Although the FDIC has determined that it does not maintain critical infrastructure or key resources as intended by HSPD – 7, the FDIC is required to report to OMB on its ability to ensure the continuity of its business operations in the event of a physical or cyber attack.

The intent of HSPD – 7 is to ensure that the federal government maintains the capability to deliver services essential to the Nation's security and economy and to the health and safety of its citizens in the event of a cyber- or physical-based disruption. Much of the Nation's critical infrastructure historically has been physically and logically separate systems that had little interdependence. However, as a result of technology, the infrastructure has increasingly become automated and interconnected. These same advances have created new vulnerabilities to equipment failures, human error, natural disasters, terrorism, and cyber attacks.

To effectively protect critical infrastructure, the FDIC's challenge in this area is to implement measures to mitigate risks, plan for and manage emergencies through effective contingency and continuity planning, coordinate protective measures with other agencies, determine resource and organization requirements, and engage in education and awareness activities. The FDIC will need to continue to work with the Department of Homeland Security and the Finance and Banking Information Infrastructure Committee, created by Executive Order 23231 and chaired by the Department of the Treasury, on efforts to improve security of the critical infrastructure of the Nation's financial system. To address this risk, the FDIC is sponsoring 24 outreach conferences for the Financial and Banking Information Infrastructure Committee and Financial Services Sector Coordinating Council through 2005, which will address protecting the financial sector.

One evaluation and one audit are planned in this management and performance challenge area.

34. The FDIC's Private Branch Exchange Communications System
(General Support Systems)

The FDIC Private Branch Exchange (PBX) network provides local and long-distance voice and data communications. The network includes toll-free access, conferencing, answering services, and fax transmissions. The FDIC also offers cellular phones and pagers to employees on an as-needed basis. Network operations are controlled by DIRM.

The audit objective is to determine whether access controls and logging facilities of the PBX communications system are adequate.

Estimated Assignment Start: 1st Quarter FY 2005

35. The FDIC's Emergency Operations Plan

Recent large-scale disasters in the United States have clearly demonstrated how important it is to have reliable emergency response procedures and a well-written business continuity plan to sustain critical business functions during an emergency or situation that may disrupt normal operations. The FDIC has developed an Emergency Operations Plan, comprised of an Emergency Response Plan (ERP) and a separate Business Continuity Plan (BCP).

In August 2004, the OIG issued a report on the results of our evaluation of the *FDIC's Business Continuity Plan.* This evaluation determined whether the FDIC's BCP addressed 14 common elements of business continuity that our research showed should be incorporated into any organization's business continuity planning process. We reported that the FDIC's BCP reasonably addressed 3, and partially addressed 11, of the 14 common elements. We made 10 recommendations to strengthen the business continuity planning process.

Given the importance of this area, we believe a follow-up evaluation is warranted. The follow-up evaluation will include the FDIC's Emergency Operations Plan, which includes the ERP and BCP.

The evaluation objectives are to (1) assess the FDIC's efforts to develop and implement a comprehensive emergency operations plan and (2) using the results of the 2004 FDIC BCP evaluation as a baseline, determine the progress of the FDIC's efforts to implement recommendations pertaining to the BCP.

Estimated Assignment Start: 4th Quarter FY 2005

Management of Major Projects

Project management is defining, planning, scheduling, and controlling of the tasks that must be completed to reach a goal and the allocation of the resources to perform those tasks. The FDIC has engaged in several multi-million dollar projects, such as the NFE, Central Data Repository, and Virginia Square Phase II Construction. Without effective project management, the FDIC runs the risk that corporate requirements and user needs may not be met in a timely, cost-effective manner.

For example, in March 2002, the Board of Directors approved construction of a new nine-story building at the FDIC's Virginia Square campus in Northern Virginia. Known as Virginia Square Phase II, the building will house FDIC staffers (about 1,100) who, for the most part, now work in leased space. The expansion will cost approximately $111 million. The building is expected to be finished in 2006. Completing construction activities and moving staff from leased to owned space within the planned time and cost budgets presents considerable challenges for FDIC management.

The Corporation must ensure that employees from all divisions and offices properly safeguard the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). It is critically important that budgets for major projects be established and closely monitored to prevent significant cost overruns.

One evaluation and three audits are planned in this management and performance challenge area.

36. Virginia Square Phase II Building Project

The FDIC is in the process of building an office building and special purpose facility at Virginia Square, Arlington, Virginia. The Project, referred to as Phase II, is being constructed on land owned by the FDIC and will connect to the existing FDIC office building that was completed in 1991 (referred to as Phase I). On March 22, 2002, the FDIC Board of Directors authorized $106.5 million for the design and construction of the Virginia Square Phase II Building Project to occur over a 4-year period from 2002 through 2005.

The new construction consists of a two-tower, nine story, 372,000-square-foot office building. In addition to the 800 FDIC employees occupying Phase I, Phase II is designed to house an additional 1,100. It is the goal of the FDIC to complete the project early and under budget and to occupy the new structure no later than January 2006.

The audit objective is to determine whether the FDIC is effectively (1) implementing project management strategies to ensure that the project is completed on time and within budget and (2) managing the change order process.

Estimated Assignment Start: 1st Quarter FY 2005

37. Adequacy of Support for Board Cases

Expenditure authority for contracts, legal services, and nonprocurement-related expenses, in the Corporate, receivership, or conservatorship capacities, is delegated according to dollar amounts and is subject to defined exceptions and limitations contained within Corporate Delegations of Authority. The Board of Directors must review expenditures over $5 million. Board member representatives have expressed concerns about the adequacy of analysis and assumptions supporting board case recommendations.

The evaluation objectives are to (1) assess the adequacy of corporate guidance for preparing and supporting board cases and (2) determine whether selected Board case recommendations are supported by complete and accurate analyses.

Estimated Assignment Start: 1st Quarter FY 2005

38. System Development Life Cycle Audit of the Asset Servicing Technology Enhancement Project

The Asset Servicing Technology Enhancement Project (ASTEP) will provide an integrated solution that meets the FDIC's current and future asset servicing responsibilities based on adaptable technology that is compatible with industry standards. The recommended ASTEP environment is a collaborative effort between the Division of Resolutions and Receiverships (DRR), the Division of Finance (DOF), and the Division of Information Resources Management (DIRM) to meet all the asset servicing requirements of the FDIC for internally and externally serviced assets.

The audit objective is to determine whether the FDIC has established a control framework for ensuring the delivery of a quality system that meets corporate requirements and user needs in a timely and cost-effective manner.

Estimated Assignment Start: 1st Quarter FY 2005

39. Project Management Office

The FDIC has recently entered or planned to enter into a number of large contracts for goods and services. The most obvious example of this is the building currently under construction at Virginia Square. There are also large contracts in various stages relating to technology and asset management. These projects logically require specific expertise from the oversight managers to effectively control the costs and results achieved by the contractors.

The audit objectives are to determine whether (1) the FDIC has adequately trained its staff to oversee major projects and (2) the Project Management Office has developed criteria to measure the Corporation’s ability to meet milestones.

Estimated Assignment Start: 4th Quarter FY 2005

Assessment of Corporate Performance

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

The Corporation's strategic plan and annual performance plan lay out the agency's mission and vision and articulate goals and objectives for the FDIC's three major program areas: Insurance, Supervision, and Receivership Management. The plans focus on four strategic goals that define desired outcomes identified for each program area: (1) insured depositors are protected from loss without recourse to taxpayer funding, (2) FDIC-supervised institutions are safe and sound, (3) consumers' rights are protected and FDIC-supervised institutions invest in their communities, and (4) recovery to creditors of receiverships is achieved. Through its annual performance report, the FDIC is accountable for reporting actual performance and achieving these strategic goals. In addition to the Corporation's strategic and annual goals and objectives established under the Results Act, the Chairman maintains a comprehensive set of objectives used for internal management which are summarized in terms of Stability, Sound Policy, and Stewardship.

The Corporation has made significant progress in implementing the Results Act and needs to continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, implementing processes to verify and validate reported performance data, and addressing cross-cutting issues and programs that affect other federal financial institution regulatory agencies.

Three evaluations and three audits are planned in this management and performance challenge area.

40. Follow-up of the FDIC's Corporate Planning Cycle

Budget and performance integration is one of the President's Management Agenda initiatives. The goal is to integrate more complete information about costs and program performance in a single oversight process to achieve better control over resources used and accountability for results by program managers.

In July 2001, at the request of the former Chief Financial Officer, the OIG and the former Office of Internal Control Management (now the Office of Enterprise Risk Management) issued a joint study of the Corporate Planning Cycle (CPC). In early 2003, the current CFO expressed to OIG senior managers that the CPC report was helpful and requested that we conduct a follow-up evaluation in this area. We originally scheduled this evaluation for 2nd Quarter 2004; however, the CFO requested that we postpone the evaluation until FY 2005 to allow the Corporation to complete 2 years under the revised planning and budgeting process.

The evaluation objectives are to (1) determine (using the results of the 2001 CPC evaluation as a baseline) whether DOF has been successful in reducing resources dedicated to the CPC and in streamlining the CPC process and (2) assess the FDIC's success in integrating budget and performance goal information.

Estimated Assignment Start: 1st Quarter FY 2005

41. Implementation of E-Government Principles

The FDIC has been working on an E-business strategic plan and FDIC*connect*, an Internet site to facilitate business and exchange information between the FDIC and its insured institutions. The Government Paperwork Elimination Act (GPEA) requires federal agencies, by October 21, 2003, to allow individuals or entities that deal with agencies the option to submit information or transactions electronically and to maintain records electronically, when practicable. The 2002 President's Management Agenda identified expanded electronic government as a government-wide initiative.

The audit objective is to determine whether the FDIC has (1) adequately implemented E-Government principles in its operations and in its information exchange with insured financial institutions and (2) complied with applicable portions of GPEA.

Estimated Assignment Start: 2nd Quarter FY 2005

42. Use of Performance Measures

The Government Performance and Results Act of 1993 (Results Act) requires agencies to prepare strategic plans; develop annual performance plans with measurable, meaningful performance goals; and issue annual performance reports stating the agencies' success in meeting those goals. The purpose of the Act was to improve the efficiency, effectiveness, and public accountability of federal agencies as well as to improve congressional decision-making. The FDIC Chairman has developed separate performance objectives for FDIC divisions and offices.

The evaluation objectives are to (1) evaluate the FDIC's progress in using the Results Act to manage performance and in communicating information to assist with congressional decision-making; (2) determine whether FDIC managers use Results Act information to manage their programs; (3) determine whether FDIC employs any tools similar to the Office of Management and Budget's Program Assessment Rating Tool to gauge program success.

Estimated Assignment Start: 2nd Quarter FY 2005

43. The FDIC's Approach to Enterprise Risk Management

Enterprise risk management (ERM) is a process designed to: identify potential events that may affect the entity, manage identified risks, and provide reasonable assurance regarding how identified risks will affect the achievement of entity objectives. The ERM is effected by an entity's board of directors, management and other personnel, and applied in strategy setting and across the enterprise. In April 2004, the FDIC's Chief Financial Officer changed the name of the Office of Internal Control Management to the Office of Enterprise Risk Management (OERM). The Chief Financial Officer noted that risk management best practices had evolved from internal controls to a more proactive and enterprise-wide approach.

The evaluation objective is to assess the adequacy of the FDIC's process for identifying and quantifying internal and external risks to the Corporation and the roles of various Offices, Divisions, and the FDIC Audit Committee in mitigating those risks.

Estimated Assignment Start: 3rd Quarter FY 2005

44. Operations of the Office of the Ombudsman

The FDIC's Office of the Ombudsman is one of the federal banking agency Ombudsman programs created pursuant to the Riegle Community Development and Regulatory Improvement Act of 1994 (Riegle). Riegle required each banking agency to establish an Ombudsman to act as a liaison between the agency and any person with respect to a problem the person may have in dealing with the agency as a result of its regulatory activities and to assure that safeguards exist to encourage complainants to come forward and to preserve confidentiality. FDIC Board Resolution 057628 established the Office of the Ombudsman on August 30, 1994. The mission of the Office of the Ombudsman is to be an effective, neutral, and confidential resource and liaison for the banking industry and the general public; to facilitate the resolution of problems and complaints in a fair, impartial, and timely manner; to provide prompt and meaningful feedback; and to influence positive change at the FDIC.

The audit objective is to determine whether the Office of the Ombudsman has adequate policies and procedures for carrying out its mission.

Estimated Assignment Start: 4th Quarter FY 2005

45. DSC's Scorecard for Evaluating the Performance of the Regions

DSC implemented the Scorecard Program on January 1, 2004. The Scorecard measures include: examination turnaround, report turnaround, average examination hours compared to a benchmark, examiner utilization rate, and loan penetration. The reports are by territory (field offices) and roll into regions that roll into national reports. There are 88 field offices (52 risk offices and 33 compliance offices).

The audit objective is to determine whether the Scorecard is promoting the right performance measures and adequately ties to corporate goals and objectives.

Estimated Assignment Start: 4th Quarter FY 2005

Cost Containment and Procurement Integrity

As steward for the BIF, SAIF, and FRF, the FDIC seeks ways to limit the use of those funds. As such, the Corporation must continue to identify and implement measures to contain and reduce costs, either through more careful spending or assessing and making changes in business processes to increase efficiency. Many of the efforts described earlier as part of other management and performance challenges (e.g., NFE and corporate downsizing) attest to the Corporation's ongoing efforts to contain and reduce costs.

A key challenge to containing costs relates to the contracting area. To assist the Corporation in accomplishing its mission, contractors provide services in such areas as information technology, legal matters, loan servicing, and asset management. To contain costs, the FDIC must ensure that its acquisition framework—that is, its policies, procedures, and internal controls—is marked by sound planning; consistent use of competition; fairness; well-structured contracts designed to produce cost-effective, quality performance from contractors; and vigilant contract management to ensure successful oversight management activities.

The Corporation has taken a number of steps to strengthen internal control and effective oversight. However, our work in this area continues to show that further improvements are necessary to reduce risks such as the consideration of contractor security in acquisition planning, incorporation of information security requirements in FDIC contracts, and oversight of contractor security practices. Other risks include corporate receipt of billings for such items as unauthorized subcontractors, unallowable subcontractor markups, incorrect timesheets, billings for unreasonable project management hours, conflicts of interest, and unauthorized labor categories. The combination of increased reliance on contractor support and continuing reductions in the FDIC workforce presents a considerable risk to the effectiveness of oversight management activities.

Two evaluations and six audits are planned in this management and performance challenge area.

46. Contractor Reviews and Audits

The program of contractor reviews and audits includes pre-award reviews of the FDIC's compliance with its contract evaluation and award process, pre-award reviews of contractor proposals or internal control systems, contractor billing audits, and contract close-out audits. These assignments can result in monetary benefits, including recoveries of funds by the FDIC. In addition, the completion of a series of these assignments may identify common underlying practices resulting in opportunities to improve the contract solicitation, award, oversight, handling of claims, and closeout processes.

The audit objectives will vary by assignment type and include one or more of the following:

a. Pre-award reviews. (1) To determine whether the FDIC is complying with its *Acquisition Policy Manual* (APM) in evaluating proposals. (2) To assess financial aspects of bidders' proposals or internal controls to identify risks to the FDIC. Specific objectives may include determining whether costs are reasonable and supported.

b. Billing audits. To determine whether contractor billings are allowable under the contract, allocable, and reasonable.

c. Claims management audit. To determine whether the FDIC is (1) managing contracts to minimize claims and (2) resolving claims.

d. Contract closeout audits. To determine whether all outstanding contract issues have been addressed and the contract has been closed in accordance with the FDIC's APM.

Estimated Assignment Start: Various dates during FY 2005

47. DIRM Contract Consolidation

DIRM contracted for an IT Assessment Study that was completed in early 2004. The study concluded that the consolidation of DIRM contracts for similar services will result in a more efficient way to contract and that the consolidation should result in significant savings and overall improved service. DIRM has been working on a consolidation plan that has a goal to achieve more efficient contracting for outside services. The Chief Information Officer also noted that DIRM could rely on a few large-scale service providers to handle infrastructure operations and application maintenance. The bulk of DIRM's work is in infrastructure operations and application development/maintenance.

The audit objectives are to determine whether (1) DIRM and the Division of Administration (DOA) are effectively managing the contract consolidation project to achieve cost savings, efficiency, and effectiveness; (2) DOA obtained adequate competition for the new contracts; and (3) DIRM and DOA employees have been adequately trained to monitor performance-based contracts.

Estimated Assignment Start: 2nd Quarter FY 2005

48. Contract Solicitation, Management, and Oversight Processes

The DOA's Acquisition Services Branch is responsible for issuing contracts for goods and services. The FDIC's APM contains guidance related to the solicitation and award of contracts in order to obtain the best value for the FDIC. The contracting process has several phases. During the pre-solicitation phase, the requirements are identified and a statement of work with detailed price estimates is completed. This information is then used to develop a solicitation package that includes the evaluation criteria. Once the contract is awarded, the oversight managers are responsible for ensuring that the FDIC is receiving the goods or services being paid for and that the bills are accurate.

The audit objectives are to determine whether (1) the FDIC achieves adequate price competition in its contract solicitation process in order to obtain fair and reasonable prices for goods and services, (2) the FDIC's oversight managers are adequately overseeing contracts and complying with APM requirements, and (3) DOA is administering contracts in a cost-effective manner and in accordance with the APM.

Estimated Assignment Start: 2nd Quarter FY 2005

49. Use of Purchase Discounts

The DOA is responsible for verifying receipt of goods and services prior to the FDIC's authorizing payments to vendors. Vendor invoices are sent directly to DOA for processing. The FDIC's general ledger shows approximately $119 million in payments to vendors during calendar year 2003. First quarter 2004 payments totaled approximately $27 million. During 2003, an OIG audit identified an offer from a vendor to discount invoice payments as much as $30,000 if the FDIC would make payments within 10 days of billing. The audit found that the vendor was willing to negotiate the 10-day period, giving the FDIC 15 or more days for prompt payment. The $30,000 estimated potential savings was based on a prompt pay discount of just under 0.5 percent.

The audit objective is to assess the potential for the FDIC to recognize discounts for paying vendor billings promptly.

Estimated Assignment Start: 2nd Quarter FY 2005

50. Information Technology Task Order Processing

The Division of Administration's Acquisition Services Branch is responsible for issuing contracts consolidating the majority of its existing information technology applications services (ITAS) contracts into two to five new multiple award contracts. The scope of the new contracts will encompass: 1) information systems services; 2) organizational and management services; 3) data services; 4) software process improvement, and 5) other related IT services. As specific requirements are identified, work is awarded to one of the successful contractors using performance-based task orders. Each ITAS contract is to receive awards, using one or more Task Orders during the initial two-year contract Base Period, worth a guaranteed minimum amount of $1 million. ITAS contractors will compete for Task Order awards. Awards can be made either on a competitive or noncompetitive basis with time & material, labor hour, and firm fixed price line items.

The audit objectives are to determine whether the (1) task orders are within the scope of the contract and adequately describe the task(s) to be accomplished, (2) criteria for evaluating contractor proposals for competitive task orders was appropriate and applied uniformly, (3) method of payment is appropriate for the task to be accomplished, and (4) plan submitted by the contractor for each task order adequately describes the detailed approach outlined in their original proposal.

Estimated Assignment Start: 3rd Quarter FY 2005

51. Travel Cost Control

The FDIC contracted with SatoTravel to function as a travel agent for the Corporation, effective September 30, 2002. FDIC employees are required to make travel arrangements through SatoTravel, which makes reservations for flights, car rental, and lodging. SatoTravel provides the ability to make reservation requests by telephone or online. Historically, federal travelers utilized unrestricted government rates that were established by the General Services

Administration (GSA), particularly for flying. Regarding other costs, travelers are limited by GSA and FDIC policies.

The audit objective is to determine whether (1) the FDIC and SatoTravel are effectively monitoring travel costs, and (2) there are opportunities to reduce the FDIC's travel costs.

Estimated Assignment Start: 3rd Quarter FY 2005

52. Implementation of Section 508 Requirements

Section 508 of the Rehabilitation Act amendments of 1998 requires that when federal agencies develop, procure, maintain, or use electronic and information technology, they ensure that such technology allows federal employees with disabilities and members of the public with disabilities seeking information or services have access to and use of information and data comparable to the access of federal employees and members of the public without disabilities.

The evaluation objectives are to (1) determine whether the FDIC has made reasonable progress in implementing Section 508 of the Rehabilitation Act amendments of 1998, (2) determine whether the FDIC is implementing Section 508 in the most efficient manner and taking advantage of automated tools, (3) identify best practices at other agencies for implementing Section 508 that could be applied at the FDIC.

Estimated Start Date: 3rd Quarter FY 2005

53. Opportunities for Sharing Services with Other Banking Agencies

According to Gartner Incorporated's research, shared-service arrangements involve the aggregated provision of services between multiple, largely autonomous entities. They generate benefits by using a single group to provide a service to multiple agencies or units, rather than requiring each agency to provide the service. Benefits accrue from aggregated economies of scale or scope, the ability to negotiate from a larger base, and the adoption of streamlined, common business processes – particularly where significant simplification and standardization practices are applied.

Most government agencies are considering or are implementing some form of shared-service arrangement. This is usually driven by the need to relieve acute cost pressures facing agencies or to deliver the interagency integration required for e-government initiatives.

The evaluation objectives are to (1) determine whether the FDIC has explored opportunities for sharing common agency services or facilities such as human resources systems, financial management systems, procurement services, IT systems or services, banking research information, and field office space; and (2) research successful practices by other agencies to share common services.

Estimated Assignment Start: 4th Quarter FY 2005

Ongoing Assignments

The FDIC's Use of Consultants

The evaluation objective is to evaluate the use of, and benefits derived from, consulting services at the FDIC. In fulfilling the objective, we are determining (1) the extent to which the Corporation utilizes consulting services; (2) whether consulting service contracts are effectively justified, planned, and managed; and (3) whether tangible benefits were achieved from consulting services.

Procurement of Administrative Goods and Services

The audit objective is to determine whether the FDIC's procurement of administrative goods and services is economical and efficient.

The FDIC's Telecommunications Program

The evaluation objective is to assess whether the FDIC is procuring local telecommunication service agreements that offer the best value to the Corporation.

Contractor Billing Reviews

The objective of these reviews is to determine whether contractor billings were allowable under the contract, allocable, and reasonable.

Other

In addition to audits, evaluations, and other reviews, the Office of Audits expends resources on other important matters as warranted. The following project reflects our work planned for the annual audits of the FDIC's Financial Statements.

Ongoing Assistance

Assistance on the Audits of the FDIC's 2004 Financial Statements

The annual audits of the FDIC's financial statements require extensive use of database analysis, cyclical retrievals, statistical sampling, and data integrity testing. For the audits of the FDIC's calendar year 2004 financial statements, the OIG is assisting the Government Accountability Office by providing data collection support in the following financial statement areas: operating expenses and allocations, anticipated failures, receivables, loan loss reserves, sensitive payments, contingent liabilities for anticipated failures, account reconciliations, and database security analyses.

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Supervision & Insurance *- Michael Lombardi, Director; 202-416-2431*

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Information Assurance *- Benjamin Hsiao, Director; 202-416-2117*

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Resolution, Receivership, & Legal Services - *Bruce Gimbel, Director; 202-416-2587*

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Resources Management - *Marilyn Kraus, Director; 202-416-2426*

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Corporate Evaluations - *Marshall Gentry, 202-416-2919*

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