# Office of Inspector General

# Statement

**For the Subcommittee on VA, HUD and Independent Agencies**
**Committee on Appropriations**
**U.S. House of Representatives**

# Office of Inspector General Fiscal Year 2005 Appropriation Request

**Statement of Gaston L. Gianni, Jr.**
**Inspector General**

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**Mr. Chairman and Members of the Subcommittee:**

I am pleased to present the fiscal year 2005 budget request totaling $29.9 million for the Office of Inspector General (OIG) at the Federal Deposit Insurance Corporation (FDIC). This OIG budget has a rather unusual distinction in the federal government in that it reflects a decrease for the ninth consecutive year, after adjusting for inflation. This budget has been possible because of the improved health of the banking industry since the early 1990's, the major staff downsizing at the FDIC and within the OIG, and our internal efforts to improve our performance and productivity even with reduced budgets.

As you know, the FDIC was established by the Congress in 1933, during the Great Depression, to maintain stability and public confidence in the nation's banking system. Our nation has weathered several economic downturns since that era without the severe panic and loss of life savings unfortunately experienced in those times. The federal deposit insurance offered by the FDIC is designed to protect depositors from losses due to failures of insured commercial banks and thrifts. The FDIC insures individual deposits of up to $100,000. According to the Corporation's Letter to Shareholders, issued for the 4th Quarter 2003, the FDIC insured $3.451 trillion in deposits for 9,196 institutions, of which the FDIC supervised 5,313. The FDIC also promotes the safety and soundness of these institutions by identifying, monitoring, and addressing risks to which they are exposed.

The Corporation reports that financial institutions have recently had record earnings. The rate of bank and thrift failures has remained at a relatively low level over the past 10 years, and the Corporation has substantially reduced its estimates of future losses from failures. Assets held in receiverships following bank failures are at comparatively low levels, and significant progress has been made at closing older receiverships. The insurance funds are now comfortably above the designated reserve ratio that could otherwise trigger increases in premiums assessed on insured depository institutions. These are important indicators of a healthy banking system, and the Corporation can take pride in its positive contributions in each of these areas.

The FDIC OIG was established in 1989 in accordance with amendments added to the Inspector General (IG) Act. The OIG's program of independent audits, investigations, and other reviews assists and augments the FDIC's mission. Our efforts promote economy, efficiency, and effectiveness of FDIC programs and operations and protect against fraud, waste, and abuse.

I am completing my eighth year as the first FDIC Inspector General appointed by the President and confirmed by the Senate and can see the fruits of our strategic planning through the results we have achieved during fiscal year 2003. I look forward to supporting the Congress, the FDIC Chairman, and other corporate management in meeting current and future challenges facing the FDIC and the banking industry.

This statement discusses OIG accomplishments during fiscal year 2003, our contributions to assist FDIC management, internal initiatives to improve the OIG, and management and performance challenges facing the FDIC. I am also providing additional details about our fiscal year 2005 budget and how it will be spent.

## A Review of the FDIC OIG's Fiscal Year 2003 Accomplishments

The OIG's fiscal year 2003 achievements are impressive, and the results include:

- $96.8 million in actual and potential monetary benefits
- 193 non-monetary recommendations to FDIC management
- 35 referrals to the Department of Justice
- 43 indictments
- 22 convictions
- 5 employee/disciplinary actions

More specifically, our accomplishments included 43 completed investigations that led to the above indictments and convictions as well as fines, court-ordered restitution, and recoveries that constitute the bulk of the monetary benefits from our work. Also, we issued a total of 47 audit and evaluation reports, which included about $431,000 in questioned costs and $2.1 million in recommendations that funds be put to better use. The recommendations in these reports aim to improve the internal controls and operational effectiveness in diverse aspects of the Corporation's operations, including automated systems, contracting, bank supervision, financial management, and asset disposition.

Further, the OIG accomplished many of its organizational goals during the fiscal year as outlined in our annual performance plan. Our 2003 Performance Report shows that we met or substantially met 27 of our 34 goals, or 79 percent. In a measurable way, this achievement shows the progress we continue to make to add value to the Corporation with our audits, investigations, and evaluations in terms of impact, quality, productivity, timeliness, and client satisfaction. We also met or substantially met goals for providing professional advice to the Corporation and for communicating with clients and the public.

### Audits, Investigations, and Evaluations

Examples of the OIG's audit, investigation, and evaluation work that contributed to these accomplishments follow.

> <u>Material Loss Review of the Failure of Southern Pacific Bank, Torrance, California</u>:
>
> The OIG issued the results of its material loss review of Southern Pacific Bank and determined that the failure occurred because of ineffective corporate governance at the institution, leading to a potential loss of about $91 million. The report contained recommendations designed to improve the bank supervision process and promote the safety and soundness of FDIC-supervised institutions. The report also raised an

issue related to oversight of parent holding companies of industrial loan companies--one that we are pursuing in ongoing work.

Investigation into the Failure of Oakwood Deposit Bank Company:

Following the failure of Oakwood Deposit Bank Company on February 1, 2002, the OIG, Internal Revenue Service Criminal Investigation, and the Federal Bureau of Investigation initiated a joint investigation. The ongoing investigation has thus far led to the conviction of the bank's former president and Chief Executive Officer. After pleading guilty in May 2003 to bank embezzlement and money laundering, the former bank president was sentenced in September 2003 for his role in the fraud scheme that caused the failure of the 99 year-old bank. The defendant was sentenced to 14 years' imprisonment to be followed by 5 years' supervised release and was ordered to pay $48,718,405 in restitution.

The investigation leading to the defendant's plea found that he began embezzling funds from the bank in 1993 with a loan to a family member. He admitted to altering bank records and creating paperwork in order to conceal the embezzlement, which resulted in losses to the bank of approximately $48.7 million and led to the bank's insolvency. As part of his plea, the defendant forfeited any and all of his interest in property controlled by Stardancer Casinos Inc. and its subsidiaries, as he was an investor and part owner of Stardancer. In late 1998, the defendant began investing embezzled bank funds into Stardancer Casinos Inc., a casino gambling operation originally headquartered near Myrtle Beach, South Carolina. Over the course of the next 3 years, the defendant embezzled over $43 million to purchase casino vessels and fund the operations of the casino business. The defendant forfeited bank accounts relating to Stardancer and two other companies identified in the investigation. He also forfeited real estate and investments in Florida, Ohio, Texas, and South Carolina; his interest in any of the Stardancer vessels and equipment; $520,450 in currency seized by the government; and any substitute properties owned by him but not identified in the investigation as the proceeds of criminal activities.

Investigation of Scheme to Defraud Community Bank of Blountsville, Alabama:

In October 2003, an ongoing investigation by the OIG and FBI into an alleged fraud scheme at Community Bank of Blountsville, Alabama, led to a 25-count indictment against the bank's former chairman and chief executive officer (CEO), the bank's former vice-president for construction and maintenance, and the owner of a construction services company. The indictment charges the three defendants with bank fraud, misapplication of bank funds, false statements to a financial institution, and false entries in the books and records of a financial institution. The indictment also charges the former CEO with money laundering and filing false tax returns, and seeks from him forfeiture of $3.45 million. The three defendants allegedly conspired to use $2.15 million in bank funds for construction work on the CEO's personal projects, including a 17,000 square foot home. While the CEO obtained more than $5 million in bank loans to build his house, he allegedly used more than $1.34 million of those funds for other purposes.

Previously in the investigation, a couple who owned a construction company were found guilty on charges of bank fraud and conspiracy to commit bank fraud and were sentenced to 18 months' incarceration and ordered to pay restitution totaling $178,000. Our investigation found that the couple submitted invoices for construction work purportedly performed for Community Bank. Some of the invoices were for work never performed, and other invoices were for personal construction work performed for the bank's CEO, his relatives, and the bank's vice president of construction and maintenance. Evidence was presented at trial to show that the records of the bank were falsified to reflect that the work was completed at the bank's facilities.

Investigation of Fraud by Securities Dealer Misrepresenting FDIC Affiliation:

Following an FDIC OIG investigation, a securities dealer was sentenced in the Riverside County District Court, Riverside, California, to serve 6 years' imprisonment and ordered to pay $20,000 in fines. The sentencing was based on his plea of guilty in October 2002 to an amended complaint charging him with selling unregistered securities, fraud, and theft. The subject, doing business as Jeffco Financial Services, was licensed to sell securities through San Clemente Services, Inc., another company involved in the sale of brokered certificates of deposit (CDs). Relying on information they were provided regarding FDIC insurance coverage, investment yields, fees, and commissions, investors purchased approximately 1,241 CDs totaling $67,390,735 from Jeffco Financial Services. The felony complaint to which the subject pleaded guilty lists the names of 59 individuals or entities to whom he offered or sold unregistered securities which are described in the complaint as "investment contracts in the form of interests in custodialized CDs." He also pleaded guilty to making misrepresentations regarding "annual average yield," theft of property exceeding $2.5 million in value, and participating in a pattern of felony conduct involving the taking of more than $500,000. The FDIC OIG investigation was initiated based on a referral by the FDIC's Division of Supervision and Consumer Protection of information obtained during the examination of a bank indicating irregularities in deposits the bank had placed with San Clemente Services.

Evaluation of the FDIC's Information Technology Security Program:

In our 2003 independent evaluation of the FDIC's Information Security Program, required by the Federal Information Security Management Act, we concluded that the Corporation had established and implemented management controls that provided limited assurance of adequate security over its information resources. However, we reported that continued management attention was needed in several key management control areas, including contractor security, enterprise-wide IT architecture management, certification accreditation of major IT systems, and IT capital planning and investment control. The report highlights 10 key areas where the Corporation needed to focus attention to address information security weaknesses.

Our semiannual reports to the Congress provide many other examples of OIG accomplishments. These reports can be found on our Web page at www.fdicig.gov/semi-reports/oig.pdf or by contacting our office.

## Assistance to FDIC Management

In addition to 2003 audits, investigations, and evaluations, the OIG made valuable contributions to the FDIC in several other ways. We strive to work in partnership with Corporation management to share our expertise and perspective in certain areas where management is seeking to make improvements. Among these contributions were the following activities:

- Reviewed 86 proposed corporate policies and 4 draft regulations and offered comments and suggestions when appropriate.
- Commented on the FDIC's strategic and annual performance plans, and annual performance report.
- Provided advisory comments on the FDIC's 2003 Annual Performance Plan and 2002 Annual Report.
- Provided the Corporation with an updated risk analysis document on the Quality of Bank Financial Reporting and Auditing and Corporate Governance.
- Participated in division-level conferences and meetings to communicate about our audit and investigation work and processes.
- Assisted an FDIC team in developing a paper on the "Root Causes of Bank Failures from 1997 to the Present."
- Provided technical assistance and advice to several FDIC groups working on information technology issues, including participating at the FDIC's information technology security meetings. We also participated in an advisory capacity on the Information Technology Subcommittee of the Audit Committee.
- Conducted an annual review of the Corporation's internal control and risk management program.
- Provided oversight to several major system development efforts.

## OIG Management and Operational Initiatives

An important part of our stewardship over the funding we receive includes our continuous efforts to improve OIG operations. During the past couple of years, we took several initiatives that continue to have great significance on our work and operations.

The OIG participated in a significant **downsizing and restructuring initiative** with the Corporation. The new organization, though smaller, is now more closely aligned with key FDIC mission areas. For example, our **Office of Audits underwent a major reorganization** and is now organized around four operational directorates: Resolution, Receivership, and Legal Services; Supervision and Insurance; Information Assurance; and Resources Management. A fifth directorate, Corporate Evaluations, performs corporate-wide and other evaluations.

During this past year we have continued to invest in our people and the performance capacity of the OIG. During fiscal year 2002, we **issued a Human Capital Strategic Plan**, which outlines four objectives to maximize the return on our human capital investments. The objectives relate to workforce analysis; competency investments; leadership development; and a results-oriented, high-performance culture. Two objectives of the plan were substantially met during this past year and each will serve as the basis for future important human capital projects. **The OIG Business Knowledge Inventory System** and the **OIG Key Competencies Project** together provide valuable information to the OIG on its skills and knowledge and will help identify where we need to make investments in training, professional development, and recruitment.

Six competencies were developed that we believe all OIG staff need to contribute successfully to the OIG mission and goals. These competencies form the basis for performance expectations of every OIG employee, including executives. The competencies are: **achieves results, communicates effectively, demonstrates teamwork, exhibits technical competency, demonstrates responsibility and self-development, and leads effectively**. Each of these competencies has been further defined with subsidiary criteria describing the types of performance behaviors included under the competency. We believe full integration of these core competencies into the OIG's human capital system will help foster a greater results-oriented, high-performance culture and enhance accomplishment of OIG strategic goals and objectives.

Our **strategic goals are interrelated**, as follows:

> **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.
>
> **Communication and Outreach**: Communication between the OIG and the Chairman, the Congress, employees, and other stakeholders will be effective.
>
> **Human Capital**: The OIG will align its human resources to support the OIG mission.
>
> **Productivity**: The OIG will effectively manage its resources.

Other internal initiatives include our hosting an **interagency symposium on the Federal Information Security Management Act of 2002**. Representatives from 44 federal agencies attended the symposium to share information, ideas, and best practices related to the implementation of FISMA. We also co-sponsored a second **Emerging Issues Symposium** with the Offices of Inspector General of the Department of the Treasury and the Board of Governors of the Federal Reserve System, bringing together distinguished speakers who shared their perspectives on the banking and financial services community with Inspector General staff in the interest of enhancing the value that OIGs can add to their agencies by successfully addressing risk areas. We also conducted our fifth **external customer survey** regarding satisfaction with OIG operations and processes. In keeping with the spirit of the 25th anniversary of the IG Act, all OIG staff had an opportunity to recommit to the mission of the OIG during an **office-wide conference** held in October 2003. Our conference focused on the FDIC OIG's mission, vision, and core values. In pursuit of our mission, vision, and values, we designed several sessions at the conference so that our staff could discuss how their service contributes to accomplishing our strategic goals.

### Other Activities

I continued my role as Vice Chair of the President's Council on Integrity and Efficiency (PCIE) and have held this position since April 1999. The Council maintains six standing committees to initiate and manage audit, investigation, evaluation, legislation, professional development, and integrity issues and projects in the Inspector General community. The PCIE has been very active in helping the government achieve better results and has concentrated many of its activities on areas that would facilitate agency efforts related to the President's Management Agenda. To enhance the community's ability to continue fulfilling its mission, the PCIE co-hosted its annual conference to highlight challenges and explore ways to address them. Further, the PCIE issued its annual report to the President. In addition, my office led the PCIE initiative to update and revise the *Quality Standards for Federal Offices of Inspector General* (Silver Book). I also represented the OIG community within government before the Congress, delegations of foreign visitors, and professional organizations.

Also, I played an active role in many of the community's activities celebrating the 25th anniversary of the IG Act, including meeting with President Bush, participating in IG interviews on C-Span's *Washington Journal*, and awarding 134 individuals and teams at the community's annual awards program. On December 1, 2003, the President signed a joint congressional resolution recognizing the IG community on its 25th anniversary and its accomplishments fostering good government.

Finally, the FDIC OIG completed a peer review of the nationwide audit operations of the Department of Commerce.

## Management and Performance Challenges Facing the FDIC

In the spirit of the Reports Consolidation Act of 2000, the OIG annually identifies the top management and performance challenges facing the FDIC. We have worked with the FDIC to prepare our annual assessment. Our update of the challenges as of December 19, 2003, was included in the FDIC's performance and accountability report dated February 13, 2004. The challenges capture the risks and opportunities we see before the Corporation in the coming year or more. In addition, these challenges serve as a guide for our work. Notwithstanding the current strength of the banking industry, the Corporation must continue to be vigilant because challenges are ever-present and can threaten the Corporation's success. I will briefly discuss each of the challenges and, where appropriate, describe OIG initiatives that address the challenge.

## 1. Adequacy of Corporate Governance in Insured Depository Institutions

Corporate governance is generally defined as the fulfillment of the broad stewardship 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.

To assist the Corporation in meeting this challenge, we conducted two audits this past year that relate to material losses caused by the failures of the Connecticut Bank of Commerce, Stamford, Connecticut and the Southern Pacific Bank, Torrance, California. The audits concluded that these banks failed because of ineffective corporate governance, including the external auditors' issuance of unqualified opinions on the banks' financial statements, and led to an estimated loss of almost $200 million to the insurance funds. Our work on eight other material loss reviews we have conducted since 1993 also identified inadequate corporate governance as the primary cause of each failure.

We also conducted two audits related to the FDIC's examination of institutions for compliance with anti-money laundering requirements. The first audit focused on the FDIC's implementation of the *United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (Patriot Act). We found that the FDIC had not issued guidance to its examiners for those provisions of the Patriot Act requiring new or revised examination procedures, because the FDIC was either coordinating the issuance of uniform procedures with an interagency committee or waiting for the Treasury Department to issue final rules. As a result of our audit, the FDIC promptly issued interim guidance to its examiners and the uniform rules were issued 2 months later. The second audit focused on the FDIC's supervisory actions taken to address violations of the *Bank Secrecy Act of 1970* (BSA). We concluded that the FDIC needs to strengthen its follow-up process for BSA violations and has initiatives underway to reassess and update its BSA policies and procedures. We recommended actions intended to strengthen the FDIC's monitoring and follow-up efforts for BSA violations, update guidance for referring institution violations to the Treasury Department, and provide alternative coverage when state examinations do not cover BSA compliance. FDIC management concurred with the recommendations and is taking corrective action.

## 2. Protection of Consumer Interests

The availability of deposit insurance to protect consumer interests is a very visible way in which the FDIC maintains public confidence in the financial system. Additionally, as a regulator, the FDIC oversees a variety of statutory and regulatory requirements aimed at protecting consumers from unfair and unscrupulous banking practices. The FDIC, together with other primary Federal regulators, has responsibility to help ensure bank compliance with statutory and regulatory requirements related to consumer protection, civil rights, and community reinvestment.

The OIG's recent coverage in this area includes reviews of compliance with the Gramm-Leach-Bliley Act, Community Reinvestment Act, and the Fair Lending Act. We plan to review new FDIC compliance examination procedures in 2004.

### 3. Management and Analysis of Risks to the Insurance Funds

The FDIC seeks to ensure that failed financial institutions are and continue to be resolved within the amounts available in the insurance funds and without recourse to the U.S. Treasury for additional funds. Achieving this goal is a significant challenge because the insurance funds generally average just over 1.25 percent of insured deposits and the FDIC supervises only a portion of the insured institutions. In fact, the preponderance of insured assets are in institutions supervised by other Federal regulators. Therefore, the FDIC has established strategic relationships with other regulators surrounding their shared responsibility of helping to ensure the safety and soundness of the Nation's financial system. Economic factors also can pose a considerable risk to the insurance funds. The FDIC actively monitors such factors as interest rate margins and earnings in the financial sector in an effort to anticipate and respond to emerging risks.

To assist the FDIC in meeting this challenge, we conducted audits that focused on FDIC examiners' assessments of commercial real estate loans and high-loan growth, implementation of statutory prompt corrective action provisions and a number of other audits related to supervision and insurance issues. We also issued a follow-up report to an earlier report entitled *The Effectiveness of Prompt Corrective Action Provisions in Preventing or Reducing Losses to the Deposit Insurance Funds,* dated March 26, 2002. Our ongoing work relating to safety and soundness examinations is assessing the effectiveness of the Corporation's examination assessment of bank management. In addition, we plan to review examination assessment of capital and supervision of industrial loan companies.

### 4. Effectiveness of Resolution and Receivership Activities

One of the FDIC's primary corporate responsibilities includes planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and efficient resolution of failed financial institutions. In this regard, the depositors of insured banks and savings associations are a unique responsibility for the FDIC. These activities maintain confidence and stability in our financial system. Notably, since the FDIC's inception over 70 years ago, no depositor has ever experienced a loss of insured deposits at an FDIC-insured institution due to a failure.

To address this area we reviewed the FDIC's efforts to ensure that bank customers have timely access to their insured deposits at failed institutions. Also, we conducted an audit to assess the FDIC's Readiness Program to respond to a series of failures exceeding the FDIC's capacity to handle with its own resources. A focus of our future work will be the

Asset Servicing Technology Enhancement Project, which is designed to provide an integrated solution that supports the FDIC's current and future asset servicing functions based on adaptable computing technology and data sharing that is compatible with industry standards.

### 5. 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 crisis has been accomplished. As a result, FDIC executives and managers must be diligent and continually assess the goals and objectives, workload, and staffing of their organizations and take appropriate steps to ensure that the workforce has the right experience and skills to fulfill its mission. The Corporation has created the Corporate University to address skill levels and preserve institutional knowledge in its five main lines of business. The Corporation is also in the process of revamping its compensation program to place greater emphasis on performance-based initiatives.

The OIG recently completed an evaluation of the Corporation's human capital framework and we have a series of reviews planned to address the various components of the human capital program, with the next being strategic workforce planning.

### 6. Management and Security of Information Technology Resources

Management and security of information technology resources remains one of the Corporation's most expensive and daunting challenges. Information technology (IT) continues to play an increasingly greater role in every aspect of the FDIC mission. Our work required under the Federal Information Security Management Act of 2002 has shown that the Corporation has worked hard to implement many sound information system controls to help ensure adequate security. However, daunting challenges remain due to the ever-increasing threat posed by hackers and other illegal activity. We have urged the FDIC to stay the course in developing an enterprise-wide IT architecture that maps current and "to be" states of business processes and the supporting information systems and data architecture. Additionally, we have emphasized completing system certification and accreditation processes to test the security of deployed IT assets.

We have addressed this area through our previously mentioned annual evaluation of FDIC's Information Security Program. In addition, we have completed and ongoing assignments covering the IT capital planning and investment control process to assist the Corporation in this area. We also plan to routinely test the controls of selected major business systems supporting critical functions such as premium assessment, resolution and marketing, and human resource management.

### 7. Security of Critical Infrastructure

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.

To assist the FDIC in this area, we reviewed the progress the Corporation has made in implementing its *Information Security Strategic Plan*. Also, we conducted a review of the adequacy of the FDIC's approach to assessing business continuity planning at FDIC-supervised institutions. In addition, our ongoing work includes coverage of physical security and business continuity planning for the FDIC.

### 8. Management of Major Projects

The FDIC has engaged in several multi-million dollar projects, such as the New Financial Environment, 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.

The OIG has performed several reviews of these projects, and our results pointed to the need for improved defining, planning, scheduling, and control of resources and tasks to reach goals and milestones. The Corporation has included a project management initiative in its 2004 performance goals and established a program management office to address the risks and challenges that these kinds of projects pose. We will continue to focus on the major corporate initiatives discussed above.

### 9. Cost Containment and Procurement Integrity

As steward for the Bank Insurance Fund and Savings Association Insurance Fund, the FDIC seeks ways to limit the use of those funds. Therefore, 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.

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 requirements definition, the consideration of contractor security in acquisition planning, incorporation of information security requirements in FDIC contracts, oversight of contractor security practices, and compliance with billing guidelines. Our audits continue to assist the Corporation in this area.

### 10. Assessment of Corporate Performance

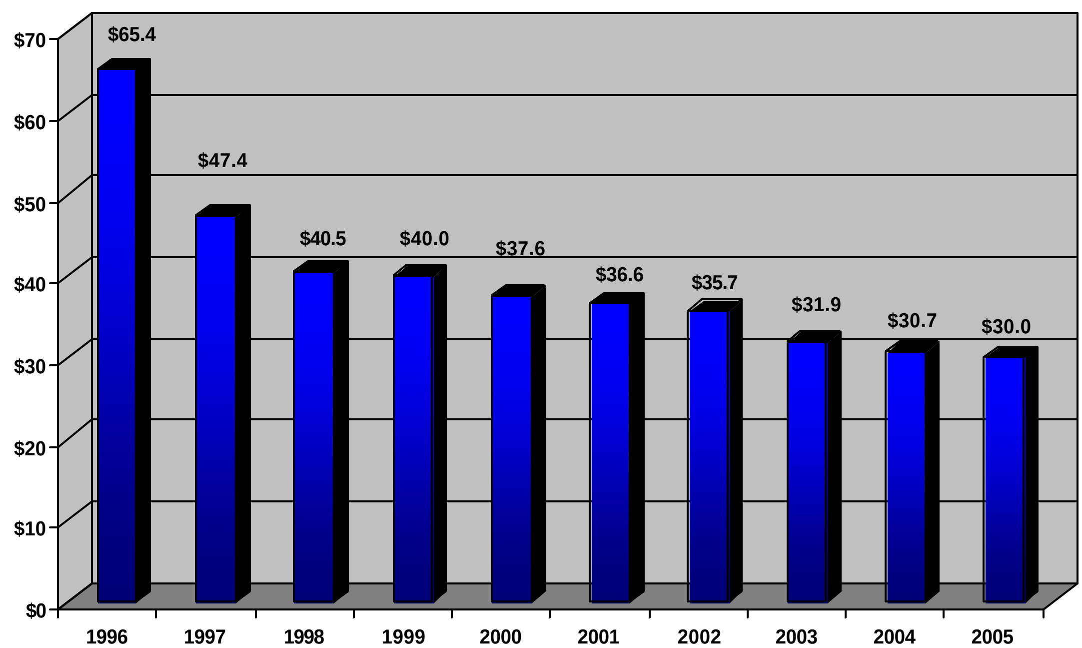
The Corporation has made significant progress in implementing the Government Performance and Results Act of 1993 and needs to continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, implementing processes to verify and validate reported performance data, and addressing crosscutting issues and programs that affect other federal financial institution regulatory agencies.

The OIG has played an active role in the evaluation of the Corporation's efforts in this area and we have additional reviews planned that will look at the Corporation's budgeting and planning process and its strategic and annual planning process under the Results Act.

## The OIG's Fiscal Year 2005 Budget Request

The proposed fiscal year 2005 OIG budget includes funding in the amount of $29,965,000 or $160,000 less than fiscal year 2004. This budget will support an authorized staffing level of 160, a further reduction of 8 authorized staff (5 percent) from fiscal year 2004. The budget must also absorb higher projected expenses for salaries, employee benefits, and other costs that will increase due to inflation. **This will become the ninth consecutive year OIG budgets have decreased after adjusting for inflation.** The graph below shows the OIG's budget history since I became the Inspector General in 1996.

**FDIC OIG Budget History from FY 1996 - FY 2005)**
**(Adjusted to Fiscal Year 2005 Dollars)**
**(In Millions of Dollars)**

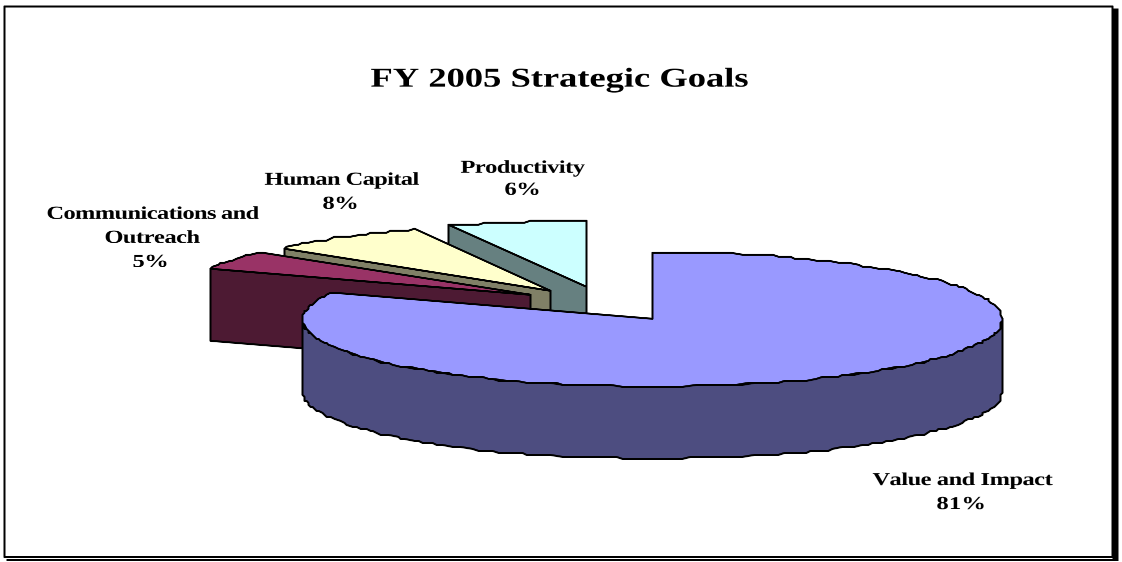



**Note:** Budgets for 1996-1997 are by calendar year and budgets for 1998-2005 are by fiscal year.

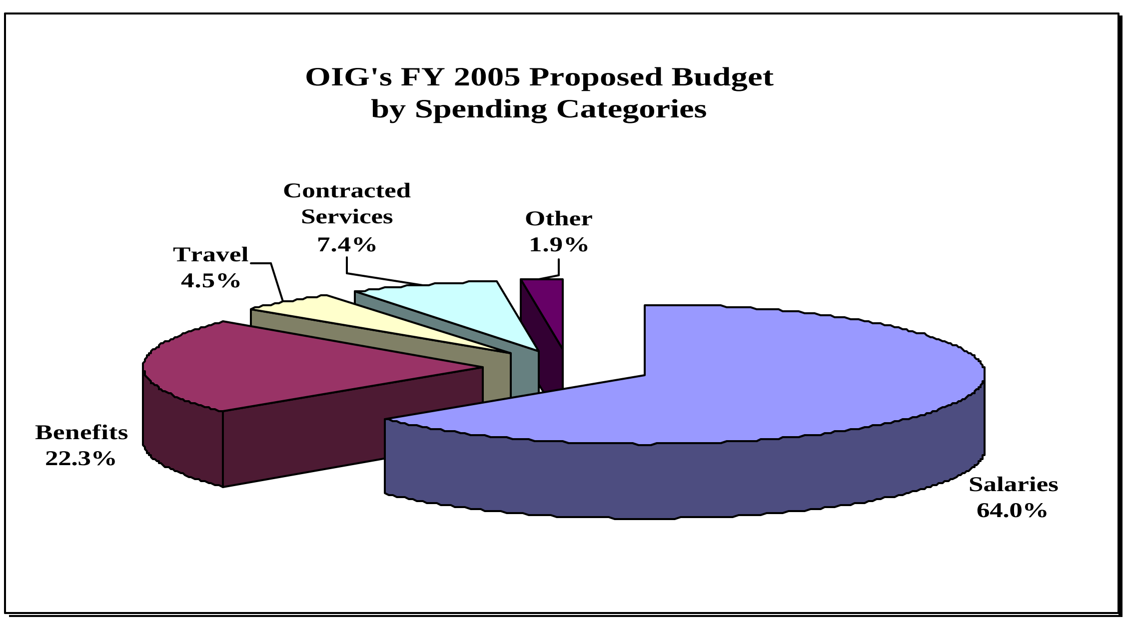
The FDIC has been operating under an appropriated budget since fiscal year 1998 in accordance with Section 1105(a) of Title 31, United States Code, which provides for "a separate appropriation account for appropriations for each Office of Inspector General of an establishment defined under Section 11(2) of the Inspector General Act of 1978." This funding approach is part of the statutory protection of the OIG's independence. The FDIC OIG is the only appropriated entity in the FDIC. The OIG's appropriation would be derived from the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund. These funds are the ones used to pay for other FDIC operating expenses.

**Budget by Strategic Goals and Major Spending Categories**

For fiscal year 2005, the OIG developed the budget based on the four strategic goals outlined in its *Strategic Plan* and discussed earlier in this statement. The four strategic goals, along with their associated budget dollars, are listed as follows:




The following chart shows the distribution of the OIG's budget by major spending categories. Mostly, the OIG budget is comprised of salaries and benefits for its employees and the necessary funding for travel and training expenses.



As I discussed earlier, the OIG has significantly downsized not only in the last few years, but also since 1996. The OIG has decreased its authorized level of 215 staff for fiscal 2002 to 160 for fiscal 2005 – about a 26-percent reduction. Since I became the FDIC Inspector General in 1996, our staff has decreased from 370 to the current level, or a total decrease of about 57 percent. Overall, FDIC staffing declined from 9,151 to 5,300 from 1996 to 2003. The graph below shows the authorized OIG staffing since the merger of RTC in 1996.


## Concluding Remarks

Mr. Chairman and Members of the Subcommittee, I appreciate the support and resources we have received through the collaboration of the President, the Congress, this Subcommittee, and the FDIC over the past several years. As a result, the OIG has been able to make a real difference in FDIC operations in terms of financial benefits and improvements, and by strengthening our own operations and efficiency. Our budget request for fiscal year 2005 is modest in view of the value we add. Like many governmental organizations, we are faced with succession planning challenges, which are of particular concern in a downsizing environment. We have begun to address this issue through a modest recruitment program; however, any further downsizing could have a serious impact on this effort. We seek your continued support so that we will be able to effectively and efficiently conduct our work on behalf of the Congress, FDIC Chairman, and the American public.

Having just celebrated the 25th year since passage of the Inspector General Act and the 15th anniversary of the FDIC OIG, I take pride in my organization and the entire federal Inspector General community and its collective achievements. Building on this legacy, we in the FDIC OIG look forward to new challenges and assisting the Congress and corporate officials in meeting them.