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Description of document: Federal Deposit Insurance Corporation (FDIC) records provided to Senator Charles E. Grassley and Senator Tom Coburn concerning the independence of Inspectors General necessary to promote efficiency and prevent fraud, waste and abuse in agency programs, in response to the Senators' inquiry, 2011-2012

Requested: 15-April-2012

Released date: 30-May-2012

Posted date: 04-July-2012

Source of document: FOIA Request
FDIC
Legal Division
FOIA/PA Group
550 17th Street, N.W.
Washington, D.C. 20429
Fax: 703-562-2797
[FDIC's Electronic Request Form](#)

Note: This is one of several files on the same subject for various agencies available on governmentattic.org. See:
<http://www.governmentattic.org/6docs/GrassleyCoburn.htm>

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May 30, 2012

RE: FDIC FOIA Log Number 12-0552

This will respond to your April 15, 2012 FOIA request for request "a copy of each biannual response to Senators Grassley and Coburn regarding their April 8, 2010, request to the FDIC Office of the Inspector General to provide a summary of your non-public management advisories and closed investigations." You stated that you wished to obtain, "Each and every biannual response/report to Senators Grassley and Coburn, IN ADDITION TO the original response from your agency to the April 8, 2010 letter from the Senators."

Enclosed please find copies of the records located by the FDIC (consisting of a total of 54 pages) which are responsive to your request. However, certain information in these records has been redacted pursuant to FOIA Exemptions 2, 3, 5, 6, 7(C), 7(E) and/or 8, 5 U.S.C. § 552 (b)(2), (b)(3), (b)(4), (b)(5), (b)(6), (b)(7C), (b)(7)(E) and/or (b)(8).

FOIA Exemption 2 protects information that is "related solely to the internal personnel rules and practices of an agency." FOIA Exemption 3 protects information that is "specifically exempted from disclosure by statute (other than section 552b of this title), provided that such statute (A) requires that the matters be withheld from the public in such a manner as to leave no discretion on the issue, or (B) establishes particular criteria for withholding or refers to particular types of matters to be withheld." In this instance, the information is protected from disclosure pursuant to Rule 6(e) of the Federal Rules of Criminal Procedure.

FOIA Exemption 4 protects "trade secrets and commercial or financial information [that is] obtained from a person and privileged or confidential." FOIA Exemption 5 protects "inter-agency or intra-agency memorandums or letters which would not be available by law to a party other than an agency in litigation with the agency." FOIA Exemption 6 protects information about individuals in "personnel and medical files and similar files" when the disclosure of such information "would constitute a clearly unwarranted invasion of personal privacy."

FOIA Exemption 7(C) protects law enforcement information the disclosure of which "could reasonably be expected to constitute an unwarranted invasion of personal privacy." FOIA Exemption 7(E) protects information that "would disclose techniques and procedures for law enforcement investigations or prosecutions, or would disclose guidelines for law enforcement investigations or prosecutions if such disclosure could reasonably be expected to risk circumvention of the law." FOIA Exemption 8 protects information that is "contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions."

You agreed to pay costs to \$25.00. For fee purposes, your request was categorized as having been made for other than commercial use. Therefore, you are entitled to two hours of free search time and to one hundred pages of free duplication, but are responsible for the payment of all other search and duplication costs, whether or not any responsive information is located and, if located, whether or not any responsive information is released or withheld. Costs under \$10.00 are not assessed. This request has been processed at no cost to you. However, if you submit a new FOIA request for similar or related information, costs may be aggregated. In such event, you may no longer be entitled to two hours of free search time or to one hundred pages of free duplication.

Should you consider the redaction of information in the records provided to you to be a denial of your request, you may appeal the denial to the FDIC's General Counsel within 30 business days following receipt of this letter. If you decide to appeal, please submit your appeal in writing to the Legal Division, FOIA/Privacy Act Group, at the above address. Please refer to the FDIC log number and include any additional information that you would like the General Counsel to consider.

This completes the processing of your request.

If you have any questions about this response, you may contact Senior FOIA Specialist Jerry Sussman (telephone: 703.562.2039; email: jsussman@fdic.gov).

Sincerely,
/signed/
Hugo A. Zia, Supervisory Counsel
FOIA/Privacy Act Group

Enclosures:
As stated (54 pages).



Federal Deposit Insurance Corporation

3501 N. Fairfax Drive, Arlington, VA. 22226

Office of Inspector General

June 15, 2010

Honorable Tom Coburn
 Ranking Member
 Permanent Subcommittee on Investigations
 Committee on Homeland Security and Governmental Affairs
 Washington, DC 20510

Dear Senator Coburn,

This letter and its enclosures present our response to your April 8, 2010 joint inquiry with Charles Grassley, Ranking Member of the Senate Committee on Finance. Your inquiry was related to the independence necessary for my office to carry out audits, evaluations, and investigations at the Federal Deposit Insurance Corporation (FDIC), and included four specific requests for information. These requests, and our responses, are as follows:

- Agency Cooperation: The FDIC has not resisted and/or objected to the OIG's oversight activities and/or restricted my office's access to information.
- Closed, Non-Public Investigations, Evaluations, and Audits: Enclosure I includes a listing of closed, non-public FDIC OIG investigations and evaluations, from January 1, 2009 to April 30, 2010. The FDIC OIG did not have any closed, non-public audits during that period.
- OIG Communication with the Congress: No federal official has threatened and/or otherwise attempted to impede my office's ability to communicate with the Congress on any matter, including the OIG budget.
- Outstanding Recommendations: Enclosure II is a copy of the letter that we sent to the Ranking Member of the House Committee on Oversight and Government Reform on April 16, 2010, regarding open and unimplemented recommendations at the FDIC.

Regarding your request for information on closed, non-public investigations, evaluations, and audits, we understand from conversations between Council of the Inspectors General on Integrity and Efficiency representatives and your staff that you wanted the OIGs to provide relevant, summary information and avoid providing Privacy Act-protected information or specific personal identifiers. In my office, several of the closed investigations and evaluations included in the list (Enclosure I) involve open financial institutions, which, as a matter of practice, we do not release to the public because of the high degree of sensitivity associated with the public having information on the internal operations of an open bank. As such, we have withheld the names of any open financial institutions and/or officers of open institutions on the enclosed list. Further, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public

release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Grassley as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations. Please feel free to contact me at [redacted] if you need additional information.

[redacted] of my staff, is also available to assist you and can be reached at [redacted] or [redacted] (b)(2),(b)(6)

Sincerely,

John T. [redacted]
Inspector General

Enclosures -- 2

cc: Honorable Carl Levin, Chairman
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

Enclosure I

FDIC Office of Inspector General Non-Public Reviews

January 1, 2009 through April 30, 2010

Type of Review	Date	Why Product Was Non-Public	Summary
Investigation	1/6/09	U.S. Attorney's Office (USAO) Declined Prosecution	This investigation was initiated based on a request for assistance from the Internal Revenue Service, Criminal Investigation Division; the United States Secret Service; and the USAO into allegations of commercial loan fraud involving a number of banks. Allegations included the improper use of loan proceeds and misrepresenting the value of certain loans that were sold to other institutions. The USAO declined to prosecute the case, [REDACTED] and the case was closed. (b)(5)
Investigation	1/15/09	USAO Declined Prosecution	This investigation was initiated based on allegations that bank officers and managers engaged in questionable loan sale transactions, [REDACTED] (b)(5) [REDACTED] (b)(5) Accordingly, the USAO declined to prosecute the case, and the case was closed.
Investigation	2/4/09	Allegations Unsubstantiated	On March 28, 2007, OIG met with personnel from the Department of State Bureau of Diplomatic Security's Computer Investigations and Forensics branch regarding a joint investigation led by the FBI into counterfeit Cisco routers sold by General Services Administration-approved vendors. The counterfeit Cisco routers may have been purchased and installed on the FDIC network. On November 3, 2008, the OIG was advised that the FBI had downgraded the national security/counterintelligence aspects of the investigation in favor of a product substitution focus. Based on (1) no reports of failed Cisco network hardware from the FDIC, (2) the lack of communication from Cisco Brand Protection regarding the FDIC's list of Cisco network hardware, and (3) the FBI's downgrade of the national security implications of the product substitution, the investigation was closed.
Investigation	2/17/09	Investigation closed due to lack of prosecution potential	This investigation was initiated based on a referral from the USAO to the New England Mortgage Fraud Task Force regarding allegations that an officer of a wholly-owned mortgage subsidiary of an FDIC-regulated bank originated a series of fraudulent loans. All the suspicious loans were referred to the officer by the same source; all the loans were for units in a series of newly converted multi-family properties; the properties appeared to have been flipped; the buyers/sellers were represented by the same attorney through a power of attorney; the same appraiser was used for each property; and the loans were all closed by the same attorney. [REDACTED] (b)(5),(b)(7)(C) The FDIC OIG case was closed.

* Represents date investigation was closed or results of evaluation were communicated.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Investigation	3/11/09	Case closed and referred to our Kansas City office	This investigation was initiated based on allegations that a bank loan officer extended a series of improper loans over a 2-year period. While the details provided were preliminary, the fraud allegedly involves delinquent loans and overdrafts on the business checking accounts of certain loan customers. It appears that the loan officer provided false documents to support the loans and may have allowed a borrower to divert loan proceeds that should have been applied to the outstanding balance of the loan, but instead were used to cover an overdraft situation and pay other debts. This case was closed in the Atlanta OIG Office and referred to our Kansas City office for additional consideration. For purposes of this request, we consider the Atlanta office effort on this case to be closed.
(b)(7)(C), (b)(7)(E), (b)(8)	Investigation	3/18/09	Allegations Unsubstantiated
(b)(5)			This investigation was initiated based on the review of [REDACTED] (b)(7)(E) [REDACTED] A review of the loan officer's loan portfolio was performed after he left the bank; the review disclosed inappropriate lending activity. For example, loans were made that did not follow bank lending policy and false information was discovered on some documents. In addition, two nominee loans were identified where the true borrower and the purpose of the loans were misrepresented. The allegations were presented to the USAO. After a review of the evidence, the USAO declined prosecution [REDACTED] (b)(5) [REDACTED]
(b)(5)	Investigation	3/24/09	USAO Declined Prosecution
			This investigation was initiated based on allegations that several former bank officers provided false information to the bank's Board of Directors regarding 34 option-arm, non-agency residential mortgage-backed securities (MBS) with a face amount of \$3.28 billion. Each security was AAA rated at purchase, but many were downgraded below investment grade, resulting in catastrophic losses. A joint investigation was conducted with the FBI. An exhaustive review of documentation did not substantiate allegations of misrepresentations in connection with the MBS investment portfolio; rather, the bank suffered from a dysfunctional management structure with a "securities junky" mindset for growing the balance sheet while relying on regulatory capital and rating agencies as sufficient risk assessment tools. The USAO was provided with the results of the investigation and declined to prosecute the case, [REDACTED]

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Evaluation	5/08/09	FDIC internal management request	<p>News articles discussed alleged conflicts of interest between the FDIC and a real estate services firm, associated with an FDIC asset management contract. Although unrelated, during the Corporation's ongoing solicitation for office space for the New York Regional Office, the FDIC determined that this same real estate services firm was the building property manager for the landlord offering the best value for the FDIC. As a precaution, the Chairman requested that we perform a review of the lease solicitation to evaluate whether the FDIC followed its leasing policy, achieved reasonable competition, and conducted a solicitation that was free of any apparent conflicts of interest.</p> <p>We concluded that the FDIC followed its Leasing Policy Manual in conducting the New York Regional Office lease solicitation and evaluation effort. We concluded that the leasing effort included controls, as contemplated in the Manual, to achieve reasonable competition and to avoid conflicts of interest. FDIC officials we interviewed indicated that they were not subject to any external or internal influence, political or otherwise, to award a lease for the benefit of the real estate services firm. We also reviewed the FDIC's best value recommendation and concluded that the decision considered factors required by the Manual and appeared reasonable.</p>
Investigation	6/18/09	USAO Declined Prosecution	This investigation was initiated based on allegations that a bank employee may have placed a listening device in a bank Board room and recorded conversations when state and federal regulators may have been present. During the investigation, the bank employee admitted that he did record a private bank meeting but maintained that he did not know the date of the meeting or who was present. The employee said he knew the bank was having financial problems and wanted to know whether he needed to start looking for another job. The USAO declined to prosecute, and the case was closed.
Investigation	7/6/09	USAO Declined Prosecution	This investigation was initiated based on allegations that two individuals at an FDIC-regulated institution had engaged in criminal misconduct regarding bank transfers while working for two separate banks. The investigation disclosed that the scheme was not successful and neither institution suffered a loss. Accordingly, the USAO declined to prosecute this matter.
Investigation	7/8/09	Allegations Unsubstantiated	<p>This investigation was initiated based on a request for assistance from the USAO concerning allegations that a debtor may be withholding restitution owed to the FDIC: the debtor owes criminal restitution to the FDIC of approximately \$750,000. [REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED] Because this investigation disclosed no evidence that the debtor either owned additional assets or was concealing the assets he did own, it was closed.</p>

(b)(5), (b)(7)(C)

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
(b)(5)	Investigation	7/17/09	USAO Declined Prosecution
			This investigation is based on a referral from the FDIC into allegations of mortgage fraud by a wholly owned subsidiary of an FDIC-regulated bank. Allegations were that employees and officers of the subsidiary engaged in the falsification of loan applications, supporting documents, and appraisals in order to expand the business. The investigation disclosed that one particular loan officer routinely falsified verifications of deposits in an effort to qualify his borrowers. The USAO declined to prosecute the case. [REDACTED]
(b)(5), (b)(8)	Evaluation	7/24/09	Matter involved an open institution
			<p>We initiated the review because several news articles in early 2009 questioned whether the House Financial Services Committee Chairman had improperly influenced regulators' decision to approve a request for Capital Purchase Program (CPP) funding from an open institution. The institution is the nation's largest African-American owned commercial bank and suffered devastating losses when Congress placed the government sponsored entities (GSE), Fannie Mae and Freddie Mac, in conservatorship in September 2008. The institution requested, and the FDIC Board of Directors approved, a regulatory waiver to allow the institution to include \$17.7 million in deferred tax assets (DTA) that resulted from the GSE-related loss as Tier 1 Capital. The FDIC also recommended, and the institution received, \$12 million under the CPP.</p> <p>We found no evidence of political influence over the FDIC's decision to recommend the institution's application for CPP funding. However, while within appropriate delegations of authority, the FDIC took an unprecedented action related to how the institution calculated its regulatory capital (i.e., approving the DTA waiver) to qualify the bank for CPP funding [REDACTED]. We [REDACTED] concluded that the FDIC Board case requesting approval of the DTA waiver could have provided a more balanced and complete presentation of the precedent-setting nature of the case, the pros and cons of granting the waiver, and views of subject matter experts. (b)(4), (b)(8)</p> <p>With regard to the processing of the institution's CPP application, the institution did not meet the CPP viability criteria associated with capital levels, but the FDIC recommended approval and forwarded the institution's CPP application for further review by the Interagency CPP Council based on mitigating factors allowed by Treasury guidance. We identified e-mails from a senior FDIC official to FDIC regional officials responsible for processing applications that could have given the impression that approval of the application was a predetermined outcome. This official told us this was not the case, and that he was simply informing regional officials that he had told the institution's management that [REDACTED]</p>
(b)(5)	Investigation	8/5/09	USAO Declined Prosecution
			<p>This investigation was initiated based on allegations that a senior bank officer engaged in an organized commercial loan fraud scheme. The USAO declined to prosecute the case. [REDACTED] (b)(5)</p> <p>[REDACTED] and the case was closed.</p>

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
(b)(7)(E), (b)(8)	8/25/09	Allegations Unsubstantiated	The OIG attended the bank closing and coordinated with the FDIC regarding the copying of imaged electronic files, [REDACTED]. The OIG interviewed bank staff, including the chief operating officer/chief financial officer, a senior vice president/chief risk officer, and the vice president of compliance management/Bank Secrecy Act officer. No indicators or evidence of fraud were developed, and the case was closed.
(b)(5)	9/22/09	USAO Declined Prosecution	This investigation was initiated based on allegations of commercial and mortgage fraud against an FDIC-regulated institution. This investigation was in support of the USAO's [REDACTED] Team. It focused on allegations that certain individuals falsified an application to finance the purchase of a Columbia 460 aircraft on April 20, 2006, and brokered a number of real estate deals through a real estate company. The case was briefed to the USAO, which declined prosecution, [REDACTED] [REDACTED]
	9/23/09	Allegations Unsubstantiated	This investigation was initiated to monitor allegations of criminal conduct that may have caused three FDIC-regulated banks, owned by the same holding company, to fail. The holding company had consolidated assets of \$4.6 billion prior to the closing of the three institutions. Interviews were conducted, intelligence gathered, and contact made with the FBI's white collar crime squad. Neither the OIG nor the FBI developed information indicating that criminal conduct was either partly or largely the proximate cause of the banks' failure. However, the OIG identified 36 different mortgage loan brokers responsible for \$8.2 million in losses to the banks. No information was developed to indicate bank officials were engaged in fraudulent activity prior to closure; therefore, the case was closed.
(b)(7)(E), (b)(8) (b)(4), (b)(7)(E), (b)(8) (b)(7)(E)	9/26/09	Allegations of Criminal Misconduct Unsubstantiated	This investigation was initiated based on a referral from the FDIC. It was alleged that on or about December 22, 2008, [REDACTED] [REDACTED] [REDACTED] Review of the transaction determined that no criminal activity took place, and the case was closed.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
(b)(5) Investigation	10/8/09	USAO Declined Prosecution	This investigation was initiated based on allegations that a bank president embezzled over \$70,000 by selling life and disability insurance to bank customers and keeping the premiums. The investigation corroborated the allegations. The FDIC took action that now prohibits the president from employment in the banking industry. Additionally, the FDIC imposed a civil money penalty of \$10,000 on the president, which has been paid in full. The loss to the bank was minimal, as the bank was eventually made whole following the president's separation. [REDACTED] (b)(5) [REDACTED] the USAO declined to prosecute the case.
(b)(5) Investigation	10/21/09	USAO Declined Prosecution	This investigation was initiated based on allegations that a developer of single-family residences "coached" buyers in submitting fraudulent loan documents to an FDIC-regulated institution. From October 2006 until September 2008, this individual was alleged to have orchestrated a mortgage fraud scheme that resulted in the bank issuing approximately \$4.1 million for the construction of 18 single-family residences in Florida. The OIG performed various interviews and reviewed records supplied by the bank but developed no evidence that the bank was defrauded by the borrowers of these loans. By their own admission, the bank officers performed little due diligence as the loans were destined for sale on the secondary market. The USAO declined to prosecute this case [REDACTED] (b)(5) [REDACTED]
Evaluation	11/17/09	FDIC internal management request	An FDIC employee participating in the FDIC's Home Sale Program alleged that there were discrepancies in the appraisal process associated with the valuation of his personal residence under the program and questioned the independence of the review appraisal process. The employee also contended that the company that administers the Home Sale Program for the FDIC inappropriately directed the complainant's appraisers to lower their appraised values of the complainant's property. At the FDIC's request, we performed a review of the relocation appraisal to evaluate whether the FDIC and the company followed applicable procedures in reviewing and considering the complainant's relocation appraisals, and to determine whether the complainant's appraisers were subject to undue pressure or influence to lower appraisal amounts. We found that policies and procedures were followed, forecasting adjustments were consistent with industry guidance, and review appraiser comments were related to appraisal report consistency and omissions and not to appraised value amounts. Furthermore, we saw no indication of inappropriate communication from the company and determined that independent appraisers were not subject to undue influence or pressure.
(b)(4),(b)(7)(C), (b)(7)(E),(b)(8) Investigation	12/4/09	USAO Declined Prosecution	This investigation was initiated based on a referral from FDIC's Dallas office and [REDACTED] (b)(7)(E) [REDACTED] (b)(4),(b)(7)(C), (b)(7)(E),(b)(8) [REDACTED] On several occasions, the president also made loan payments using other unrelated customer accounts. The bank officer did not personally benefit from the transactions. The USAO declined to prosecute, and the case was closed.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Investigation	12/31/09	USAO Declined Prosecution	This investigation was initiated based on allegations of fraud by several employees of a mortgage division of an FDIC-regulated bank. After the subject employees were terminated, the bank discovered numerous loan files that allegedly contained false documents, including false bank statements, financial statements, and verifications of employment. These alleged fraudulent documents had been submitted and the bank approved the loans based on the information. The loss to the bank associated with these loans was minimal, and this case was closed [REDACTED] (b)(5)
Investigation	1/11/10	Allegations Unsubstantiated	This investigation was initiated based on allegations of mortgage fraud at an FDIC-regulated institution that appeared on the Chairman's failing bank list. The bank was closed by the Office of the Thrift Supervision (OTS) and the FDIC was named receiver. Subsequent to the closure, a newly chartered federal savings bank acquired the assets and most of the liabilities from the FDIC as receiver. Following the closing, the OIG, FDIC, and FBI interviewed the OTS examiners who were assigned to the bank. Investigation established no criminal violations involving officers or employees.
Investigation	1/28/10	Allegations Unsubstantiated	This investigation was initiated based on information provided by the FDIC regarding activities of a former loan officer at an FDIC-regulated institution. The bank was closed by the state regulator and the FDIC was appointed receiver. The OIG investigation developed no evidence to support any violation of federal law. A review of building and construction permits issued for work at a residence was completed and no major building or construction work was noted. No fraudulent expense payments from the employee's bank accounts were identified and no evidence was found to indicate any kickbacks were made by borrowers. The laptop computer was obtained and transferred to the FDIC. Accordingly, the investigation was closed.
Investigation	1/28/10	No charges filed – Statute of Limitations	This investigation was initiated based on a referral by an FDIC attorney regarding false statements made by an individual who owed criminal restitution payments to the agency. An OIG investigation substantiated these allegations, and the matter was referred to the USAO for prosecutive consideration. [REDACTED] a prosecutorial decision was not made in a timely fashion, and the 20-year liability on the restitution expired. Accordingly, this matter was closed.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Evaluation	2/11/10	Internal unsubstantiated anonymous complaint	<p>An anonymous FDIC employee alleged that the Interagency Exam Repository System (IERi) was a failure, that the contractor and the FDIC were unable to deliver a working product, and that the FDIC terminated the project after 2 years and \$2.1 million in contractor funds and FDIC employee costs. The complaint also alleged that FDIC staff involved with IERi were rewarded and promoted and that the contractor faced no repercussions from the failed effort. The allegations were communicated to the FDIC Board of Directors on January 13, 2009 and forwarded to our office.</p> <p>We confirmed that the IERi project was not a success and that the FDIC terminated the project without receiving a working application. However, the FDIC division in charge of the project consistently reported the status of the project in Chief Information Officer Council meetings and monthly status reports. FDIC employees associated with the development effort were promoted; however, selection justification narratives that we reviewed indicate that these employees were also involved in other successful projects and provided reasonable support for the promotions. The FDIC did hold the contractor accountable for its performance. The FDIC characterized the contractor's efforts under IERi as "unsatisfactory" and the FDIC did not renew the contractor's option periods under the 10-year, \$550 million contract.</p>
Investigation	2/12/10	Allegation Unsubstantiated	This investigation was initiated with the FBI based on allegations that a prisoner made a potential threat against an FDIC OIG Special Agent. The FBI received information from a prison inmate who was serving time with an individual who was convicted of bank fraud following an FDIC OIG and FBI investigation. According to the inmate, the subject threatened to kill both the FBI and FDIC OIG case agents who investigated him. The investigation disclosed that the threat was against the FBI case agent and the threat did not include any additional agents.
Investigation	2/12/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral and request for assistance from the Small Business Administration OIG and the USAO, concerning two employees of an FDIC-regulated institution. The employees allegedly engaged in bank fraud, false statements, conspiracy, and bribery. It was alleged that the individuals received illegal payments from business brokers, including a business brokerage firm owned by the Chairman of the Board. The matter was initially accepted for prosecution by the USAO and a [REDACTED] however, the USAO formally declined prosecution</p> <p>[REDACTED]</p>

(b)(3)
Rule 6(e)
of the
Federal
Rules of
Criminal
Procedure

(b)(5)

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Evaluation	4/06/10	Matter involved an open institution and the loss sharing agreement (LSA) was terminated prior to completion of our report	<p>On November 23, 2008, the US Federal Parties (Treasury, FDIC, and the New York Federal Reserve, collectively the USFP) entered into an LSA with an open financial institution to guarantee a percentage of losses on a portion of the institution's assets valued at [REDACTED]. We conducted an evaluation to provide an overview of the institution's LSA and the related controls and monitoring efforts in place and assess the FDIC's efforts in monitoring and protecting the FDIC's interests with respect to the institution's LSA. [REDACTED] before our draft report had been issued. We issued our product for internal informational purposes only.</p> <p>We found that overall, the controls and monitoring efforts that were in place to protect the FDIC's interests were appropriate. Additionally, each of the USFP provided staff members who were responsible for monitoring the LSA and who worked together in this effort. These staff were supplemented by contractor resources. The institution's internal and external auditors also assessed or planned to assess the institution's compliance with provisions outlined in the Master Agreement. We identified five observations for improvement, and also reported that the FDIC should strive for greater transparency in future LSAs involving taxpayer money.</p>

(b)(4), (b)(8)

(b)(4), (b)(8)



Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

April 16, 2010

Honorable Darrell Issa
Ranking Minority Member
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515-6143

Dear Mr. Issa:

This letter and its enclosure present our response to your March 24, 2010 inquiry regarding open and unimplemented recommendations at the Federal Deposit Insurance Corporation (FDIC).

With respect to the second area of interest mentioned in your letter, we do not have specific legislative suggestions to offer regarding improvements to the Inspector General (IG) Act or the Reform Act. We understand our colleagues on the Legislative Committee of the Council of the Inspectors General on Integrity and Efficiency may be conveying the IG community's perspectives in that regard.

We are also providing a copy of our response to the Committee Chairman.

If you need additional information, please feel free to contact me at or (b)(2),(b)(6)

Sincerely,

Don T. R.
Inspector General

Enclosure

Enclosure

**Federal Deposit Insurance Corporation
Office of Inspector General**

1. Open and Unimplemented Recommendations

The FDIC Office of Inspector General (OIG) has identified 15 open and unimplemented recommendations.

- The status of the 15 open and unimplemented recommendations is as follows:
 - For 6 recommendations, the OIG has received some information but has requested additional information to evaluate management's actions in response to the recommendations.
 - For 7 recommendations, the original estimated completion dates have passed.
 - For 2 recommendations, the expected implementation dates are after March 31, 2010.

2. Recommendations with Estimated Cost Savings

The FDIC OIG does not have any open recommendations with estimated cost savings. However, the OIG engaged the Defense Contract Audit Agency (DCAA) to conduct three incurred cost audits of contractors doing business with the FDIC. One of the reports remains open and contains estimated cost savings. Corrective actions taken in response to DCAA audit reports usually result from negotiations between the contractors doing business with the FDIC and the FDIC contracting officer with cognizant responsibility. The following table shows the total dollar amounts involved in the one open report.

AMOUNT EXAMINED	ESTIMATED COST SAVINGS		DATE FIRST COMMUNICATED
	Reported	Agreed to by FDIC	
\$7,573,788	\$41,065	\$26,783	2/1/10

3. Three Most Important Open and Unimplemented Recommendations

FDIC management is taking action to address most open and unimplemented recommendations, and the OIG will continue to coordinate with FDIC management as it does so. Accordingly, we have no recommendations that we believe warrant your attention at this time.

4. Recommendations Accepted and Implemented

During the period January 5, 2009 to March 31, 2010, the FDIC accepted and implemented 69 of 85 OIG recommendations.

- The status of the remaining 16 recommendations are as follows:
 - For 1 recommendation, the recommendation was not agreed to by FDIC management, and the OIG accepted management's decision.

Enclosure

Previously Reported in Section 1, above:

- For 6 recommendations, the OIG has received some information but has requested additional information to evaluate management's actions in response to the recommendations.
- For 7 recommendations, the original estimated completed dates have passed.
- For 2 recommendations, the expected implementation dates are after March 31, 2010.



Federal Deposit Insurance Corporation

3501 N. Fairfax Drive, Arlington, VA. 22226

Office of Inspector General

June 15, 2010

Honorable Charles E. Grassley
 Ranking Member
 Committee on Finance
 United States Senate
 Washington, DC 20510

Dear Senator Grassley,

This letter and its enclosures present our response to your April 8, 2010 joint inquiry with Tom Coburn, Ranking Member of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations. Your inquiry was related to the independence necessary for my office to carry out audits, evaluations, and investigations at the Federal Deposit Insurance Corporation (FDIC), and included four specific requests for information. These requests, and our responses, are as follows:

- Agency Cooperation: The FDIC has not resisted and/or objected to the OIG's oversight activities and/or restricted my office's access to information.
- Closed, Non-Public Investigations, Evaluations, and Audits: Enclosure I includes a listing of closed, non-public FDIC OIG investigations and evaluations, from January 1, 2009 to April 30, 2010. The FDIC OIG did not have any closed, non-public audits during that period.
- OIG Communication with the Congress: No federal official has threatened and/or otherwise attempted to impede my office's ability to communicate with the Congress on any matter, including the OIG budget.
- Outstanding Recommendations: Enclosure II is a copy of the letter that we sent to the Ranking Member of the House Committee on Oversight and Government Reform on April 16, 2010, regarding open and unimplemented recommendations at the FDIC.

Regarding your request for information on closed, non-public investigations, evaluations, and audits, we understand from conversations between Council of the Inspectors General on Integrity and Efficiency representatives and your staff that you wanted the OIGs to provide relevant, summary information and avoid providing Privacy Act-protected information or specific personal identifiers. In my office, several of the closed investigations and evaluations included in the list (Enclosure I) involve open financial institutions, which, as a matter of practice, we do not release to the public because of the high degree of sensitivity associated with the public having information on the internal operations of an open bank. As such, we have withheld the names of any open financial institutions and/or officers of open institutions on the enclosed list. Further, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public

release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Coburn as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Committee on Finance. Please feel free to contact me at [redacted] or [redacted] if you

(b)(2),(b)(6)

need additional information. [redacted] of my staff, is also available to assist you and can be

reached at [redacted] or [redacted]

Sincerely,

John T. [redacted]
Inspector General

Enclosures – 2

cc: Honorable Max Baucus, Chairman
Committee on Finance
United States Senate

Enclosure I

FDIC Office of Inspector General Non-Public Reviews

January 1, 2009 through April 30, 2010

Type of Review	Date	Why Product Was Non-Public	Summary
Investigation	1/6/09	U.S. Attorney's Office (USAO) Declined Prosecution	This investigation was initiated based on a request for assistance from the Internal Revenue Service, Criminal Investigation Division; the United States Secret Service; and the USAO into allegations of commercial loan fraud involving a number of banks. Allegations included the improper use of loan proceeds and misrepresenting the value of certain loans that were sold to other institutions. The USAO declined to prosecute the case, [REDACTED] and the case was closed. (b)(5)
Investigation	1/15/09	USAO Declined Prosecution	This investigation was initiated based on allegations that bank officers and managers engaged in questionable loan sale transactions. [REDACTED] harm to the financial institution since [REDACTED] (b)(5) [REDACTED] Accordingly, the USAO declined to prosecute the case, and the case was closed.
Investigation	2/4/09	Allegations Unsubstantiated	On March 28, 2007, OIG met with personnel from the Department of State Bureau of Diplomatic Security's Computer Investigations and Forensics branch regarding a joint investigation led by the FBI into counterfeit Cisco routers sold by General Services Administration-approved vendors. The counterfeit Cisco routers may have been purchased and installed on the FDIC network. On November 3, 2008, the OIG was advised that the FBI had downgraded the national security/counterintelligence aspects of the investigation in favor of a product substitution focus. Based on (1) no reports of failed Cisco network hardware from the FDIC, (2) the lack of communication from Cisco Brand Protection regarding the FDIC's list of Cisco network hardware, and (3) the FBI's downgrade of the national security implications of the product substitution, the investigation was closed.
Investigation	2/17/09	Investigation closed due to lack of prosecution potential	This investigation was initiated based on a referral from the USAO to the New England Mortgage Fraud Task Force regarding allegations that an officer of a wholly-owned mortgage subsidiary of an FDIC-regulated bank originated a series of fraudulent loans. All the suspicious loans were referred to the officer by the same source; all the loans were for units in a series of newly converted multi-family properties; the properties appeared to have been flipped; the buyers/sellers were represented by the same attorney through a power of attorney; the same appraiser was used for each property; and the loans were all closed by the same attorney. [REDACTED] (b)(5), (b)(7)(C) [REDACTED] The FDIC OIG case was closed.

* Represents date investigation was closed or results of evaluation were communicated.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Investigation	3/11/09	Case closed and referred to our Kansas City office	This investigation was initiated based on allegations that a bank loan officer extended a series of improper loans over a 2-year period. While the details provided were preliminary, the fraud allegedly involves delinquent loans and overdrafts on the business checking accounts of certain loan customers. It appears that the loan officer provided false documents to support the loans and may have allowed a borrower to divert loan proceeds that should have been applied to the outstanding balance of the loan, but instead were used to cover an overdraft situation and pay other debts. This case was closed in the Atlanta OIG Office and referred to our Kansas City office for additional consideration. For purposes of this request, we consider the Atlanta office effort on this case to be closed.
(b)(7)(C), (b)(7)(E), (b)(8)	Investigation	3/18/09	Allegations Unsubstantiated
(b)(5), (b)(7)(C)			<p>This investigation was initiated based on [REDACTED] (b)(7)(E), (b)(8)</p> <p>[REDACTED] A review of the loan officer's loan portfolio was performed after he left the bank; the review disclosed inappropriate lending activity. For example, loans were made that did not follow bank lending policy and false information was discovered on some documents. In addition, two nominee loans were identified where the true borrower and the purpose of the loans were misrepresented. The allegations were presented to the USAO. After a review of the evidence, the USAO declined prosecution [REDACTED] (b)(5), (b)(7)(C)</p> <p>[REDACTED]</p>
(b)(5)	Investigation	3/24/09	USAO Declined Prosecution
			This investigation was initiated based on allegations that several former bank officers provided false information to the bank's Board of Directors regarding 34 option-arm, non-agency residential mortgage-backed securities (MBS) with a face amount of \$3.28 billion. Each security was AAA rated at purchase, but many were downgraded below investment grade, resulting in catastrophic losses. A joint investigation was conducted with the FBI. An exhaustive review of documentation did not substantiate allegations of misrepresentations in connection with the MBS investment portfolio; rather, the bank suffered from a dysfunctional management structure with a "securities junky" mindset for growing the balance sheet while relying on regulatory capital and rating agencies as sufficient risk assessment tools. The USAO was provided with the results of the investigation and declined to prosecute the case, [REDACTED]

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Evaluation	5/08/09	FDIC internal management request	<p>News articles discussed alleged conflicts of interest between the FDIC and a real estate services firm, associated with an FDIC asset management contract. Although unrelated, during the Corporation's ongoing solicitation for office space for the New York Regional Office, the FDIC determined that this same real estate services firm was the building property manager for the landlord offering the best value for the FDIC. As a precaution, the Chairman requested that we perform a review of the lease solicitation to evaluate whether the FDIC followed its leasing policy, achieved reasonable competition, and conducted a solicitation that was free of any apparent conflicts of interest.</p> <p>We concluded that the FDIC followed its Leasing Policy Manual in conducting the New York Regional Office lease solicitation and evaluation effort. We concluded that the leasing effort included controls, as contemplated in the Manual, to achieve reasonable competition and to avoid conflicts of interest. FDIC officials we interviewed indicated that they were not subject to any external or internal influence, political or otherwise, to award a lease for the benefit of the real estate services firm. We also reviewed the FDIC's best value recommendation and concluded that the decision considered factors required by the Manual and appeared reasonable.</p>
Investigation	6/18/09	USAO Declined Prosecution	This investigation was initiated based on allegations that a bank employee may have placed a listening device in a bank Board room and recorded conversations when state and federal regulators may have been present. During the investigation, the bank employee admitted that he did record a private bank meeting but maintained that he did not know the date of the meeting or who was present. The employee said he knew the bank was having financial problems and wanted to know whether he needed to start looking for another job. The USAO declined to prosecute, and the case was closed.
Investigation	7/6/09	USAO Declined Prosecution	This investigation was initiated based on allegations that two individuals at an FDIC-regulated institution had engaged in criminal misconduct regarding bank transfers while working for two separate banks. The investigation disclosed that the scheme was not successful and neither institution suffered a loss. Accordingly, the USAO declined to prosecute this matter.
Investigation	7/8/09	Allegations Unsubstantiated	<p>This investigation was initiated based on a request for assistance from the USAO concerning allegations that a debtor may be withholding restitution owed to the FDIC: the debtor owes criminal restitution to the FDIC of approximately \$750,000. [REDACTED] (b)(5),(b)(7)(C)</p> <p>[REDACTED]</p> <p>[REDACTED] Because this investigation disclosed no evidence that the debtor either owned additional assets or was concealing the assets he did own, it was closed.</p>

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
(b)(5) Investigation	7/17/09	USAO Declined Prosecution	This investigation is based on a referral from the FDIC into allegations of mortgage fraud by a wholly owned subsidiary of an FDIC-regulated bank. Allegations were that employees and officers of the subsidiary engaged in the falsification of loan applications, supporting documents, and appraisals in order to expand the business. The investigation disclosed that one particular loan officer routinely falsified verifications of deposits in an effort to qualify his borrowers. The USAO declined to prosecute the case. [REDACTED]
(b)(5), (b)(8) Evaluation	7/24/09	Matter involved an open institution	<p>We initiated the review because several news articles in early 2009 questioned whether the House Financial Services Committee Chairman had improperly influenced regulators' decision to approve a request for Capital Purchase Program (CPP) funding from an open institution. The institution is the nation's largest African-American owned commercial bank and suffered devastating losses when Congress placed the government sponsored entities (GSE), Fannie Mae and Freddie Mac, in conservatorship in September 2008. The institution requested, and the FDIC Board of Directors approved, a regulatory waiver to allow the institution to include \$17.7 million in deferred tax assets (DTA) that resulted from the GSE-related loss as Tier 1 Capital. The FDIC also recommended, and the institution received, \$12 million under the CPP.</p> <p>We found no evidence of political influence over the FDIC's decision to recommend the institution's application for CPP funding. However, while within appropriate delegations of authority, the FDIC took an unprecedented action related to how the institution calculated its regulatory capital (i.e., approving the DTA waiver) to qualify the bank for CPP funding [REDACTED]. We (b)(4), (b)(8) concluded that the FDIC Board case requesting approval of the DTA waiver could have provided a more balanced and complete presentation of the precedent-setting nature of the case, the pros and cons of granting the waiver, and views of subject matter experts.</p> <p>With regard to the processing of the institution's CPP application, the institution did not meet the CPP viability criteria associated with capital levels, but the FDIC recommended approval and forwarded the institution's CPP application for further review by the Interagency CPP Council based on mitigating factors allowed by Treasury guidance. We identified e-mails from a senior FDIC official to FDIC regional officials responsible for processing applications that could have given the impression that approval of the application was a predetermined outcome. This official told us this was not the case, and that he was simply informing regional officials that he had told the institution's management that [REDACTED]</p>
(b)(5), (b)(7)(C) Investigation	8/5/09	USAO Declined Prosecution	This investigation was initiated based on allegations that a senior bank officer engaged in an organized commercial loan fraud scheme. The USAO declined to prosecute the case, [REDACTED] (b)(5), (b)(7)(C) [REDACTED], and the case was closed.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
(b)(7)(E)	Investigation	8/25/09	Allegations Unsubstantiated
			The OIG attended the bank closing and coordinated with the FDIC regarding the copying of imaged electronic files. [REDACTED] The OIG interviewed bank staff, including the chief operating officer/chief financial officer, a senior vice president/chief risk officer, and the vice president of compliance management/Bank Secrecy Act officer. No indicators or evidence of fraud were developed, and the case was closed.
(b)(5)	Investigation	9/22/09	USAO Declined Prosecution
			This investigation was initiated based on allegations of commercial and mortgage fraud against an FDIC-regulated institution. This investigation was in support of the USAO's [REDACTED] Team. It focused on allegations that certain individuals falsified an application to finance the purchase of a Columbia 460 aircraft on April 20, 2006, and brokered a number of real estate deals through a real estate company. The case was briefed to the USAO, which declined prosecution. [REDACTED]
	Investigation	9/23/09	Allegations Unsubstantiated
			This investigation was initiated to monitor allegations of criminal conduct that may have caused three FDIC-regulated banks, owned by the same holding company, to fail. The holding company had consolidated assets of \$4.6 billion prior to the closing of the three institutions. Interviews were conducted, intelligence gathered, and contact made with the FBI's white collar crime squad. Neither the OIG nor the FBI developed information indicating that criminal conduct was either partly or largely the proximate cause of the banks' failure. However, the OIG identified 36 different mortgage loan brokers responsible for \$8.2 million in losses to the banks. No information was developed to indicate bank officials were engaged in fraudulent activity prior to closure; therefore, the case was closed.
(b)(4), (b)(7)(E), (b)(8)	Investigation	9/26/09	Allegations of Criminal Misconduct Unsubstantiated
(b)(7)(E), (b)(8)			This investigation was initiated based on a referral from the FDIC. It was alleged that on or about December 22, 2008, an FDIC-regulated institution [REDACTED]
			[REDACTED] Review of the transaction determined that no criminal activity took place, and the case was closed.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
(b)(5), (b)(8)	Investigation	10/8/09 USAO Declined Prosecution	This investigation was initiated based on allegations that a bank president embezzled over \$70,000 by selling life and disability insurance to bank customers and keeping the premiums. The investigation corroborated the allegations. The FDIC took action that now prohibits the president from employment in the banking industry. Additionally, the FDIC imposed a civil money penalty of \$10,000 on the president, which has been paid in full. The loss to the bank was minimal, as the bank was eventually made whole following the president's separation. [REDACTED] (b)(5)
(b)(5)	Investigation	10/21/09 USAO Declined Prosecution	This investigation was initiated based on allegations that a developer of single-family residences "coached" buyers in submitting fraudulent loan documents to an FDIC-regulated institution. From October 2006 until September 2008, this individual was alleged to have orchestrated a mortgage fraud scheme that resulted in the bank issuing approximately \$4.1 million for the construction of 18 single-family residences in Florida. The OIG performed various interviews and reviewed records supplied by the bank but developed no evidence that the bank was defrauded by the borrowers of these loans. By their own admission, the bank officers performed little due diligence as the loans were destined for sale on the secondary market. The USAO declined to prosecute this case [REDACTED] (b)(5)
	Evaluation	11/17/09 FDIC internal management request	An FDIC employee participating in the FDIC's Home Sale Program alleged that there were discrepancies in the appraisal process associated with the valuation of his personal residence under the program and questioned the independence of the review appraisal process. The employee also contended that the company that administers the Home Sale Program for the FDIC inappropriately directed the complainant's appraisers to lower their appraised values of the complainant's property. At the FDIC's request, we performed a review of the relocation appraisal to evaluate whether the FDIC and the company followed applicable procedures in reviewing and considering the complainant's relocation appraisals, and to determine whether the complainant's appraisers were subject to undue pressure or influence to lower appraisal amounts. We found that policies and procedures were followed, forecasting adjustments were consistent with industry guidance, and review appraiser comments were related to appraisal report consistency and omissions and not to appraised value amounts. Furthermore, we saw no indication of inappropriate communication from the company and determined that independent appraisers were not subject to undue influence or pressure.
(b)(4), (b)(7)(C), (b)(7)(E), (b)(8)(E), (b)(8)	Investigation	12/4/09 USAO Declined Prosecution	This investigation was initiated based on a referral from FDIC's Dallas office and [REDACTED] (b)(7)(E), (b)(8)
			On several occasions, the president also made loan payments using other unrelated customer accounts. The bank officer did not personally benefit from the transactions. The USAO declined to prosecute, and the case was closed.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Investigation	12/31/09	USAO Declined Prosecution	This investigation was initiated based on allegations of fraud by several employees of a mortgage division of an FDIC-regulated bank. After the subject employees were terminated, the bank discovered numerous loan files that allegedly contained false documents, including false bank statements, financial statements, and verifications of employment. These alleged fraudulent documents had been submitted and the bank approved the loans based on the information. The loss to the bank associated with these loans was minimal, and this case was closed [REDACTED] (b)(5)
Investigation	1/11/10	Allegations Unsubstantiated	This investigation was initiated based on allegations of mortgage fraud at an FDIC-regulated institution that appeared on the Chairman's failing bank list. The bank was closed by the Office of the Thrift Supervision (OTS) and the FDIC was named receiver. Subsequent to the closure, a newly chartered federal savings bank acquired the assets and most of the liabilities from the FDIC as receiver. Following the closing, the OIG, FDIC, and FBI interviewed the OTS examiners who were assigned to the bank. Investigation established no criminal violations involving officers or employees.
Investigation	1/28/10	Allegations Unsubstantiated	This investigation was initiated based on information provided by the FDIC regarding activities of a former loan officer at an FDIC-regulated institution. The bank was closed by the state regulator and the FDIC was appointed receiver. The OIG investigation developed no evidence to support any violation of federal law. A review of building and construction permits issued for work at a residence was completed and no major building or construction work was noted. No fraudulent expense payments from the employee's bank accounts were identified and no evidence was found to indicate any kickbacks were made by borrowers. The laptop computer was obtained and transferred to the FDIC. Accordingly, the investigation was closed.
Investigation	1/28/10	No charges filed – Statute of Limitations	This investigation was initiated based on a referral by an FDIC attorney regarding false statements made by an individual who owed criminal restitution payments to the agency. An OIG investigation substantiated these allegations, and the matter was referred to the USAO for prosecutive consideration. [REDACTED] a prosecutorial decision was not made in a timely fashion, and the 20-year liability on the restitution expired. Accordingly, this matter was closed.

Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary
Evaluation	2/11/10	Internal unsubstantiated anonymous complaint	<p>An anonymous FDIC employee alleged that the Interagency Exam Repository System (IERi) was a failure, that the contractor and the FDIC were unable to deliver a working product, and that the FDIC terminated the project after 2 years and \$2.1 million in contractor funds and FDIC employee costs. The complaint also alleged that FDIC staff involved with IERi were rewarded and promoted and that the contractor faced no repercussions from the failed effort. The allegations were communicated to the FDIC Board of Directors on January 13, 2009 and forwarded to our office.</p> <p>We confirmed that the IERi project was not a success and that the FDIC terminated the project without receiving a working application. However, the FDIC division in charge of the project consistently reported the status of the project in Chief Information Officer Council meetings and monthly status reports. FDIC employees associated with the development effort were promoted; however, selection justification narratives that we reviewed indicate that these employees were also involved in other successful projects and provided reasonable support for the promotions. The FDIC did hold the contractor accountable for its performance. The FDIC characterized the contractor's efforts under IERi as "unsatisfactory" and the FDIC did not renew the contractor's option periods under the 10-year, \$550 million contract.</p>
Investigation	2/12/10	Allegation Unsubstantiated	This investigation was initiated with the FBI based on allegations that a prisoner made a potential threat against an FDIC OIG Special Agent. The FBI received information from a prison inmate who was serving time with an individual who was convicted of bank fraud following an FDIC OIG and FBI investigation. According to the inmate, the subject threatened to kill both the FBI and FDIC OIG case agents who investigated him. The investigation disclosed that the threat was against the FBI case agent and the threat did not include any additional agents.
Investigation	2/12/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral and request for assistance from the Small Business Administration OIG and the USAO, concerning two employees of an FDIC-regulated institution. The employees allegedly engaged in bank fraud, false statements, conspiracy, and bribery. It was alleged that the individuals received illegal payments from business brokers, including a business brokerage firm owned by the Chairman of the Board. The matter was initially accepted for prosecution by the USAO and [REDACTED] however, the USAO formally declined prosecution of this matter [REDACTED] d</p> <p>[REDACTED]</p>

(b)(5)
(b)(5)

(b)(3) Rule
6(e) of the
Federal
Rules of
Criminal
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Enclosure I

Type of Review	Date	Why Product Was Non-Public	Summary	
Evaluation	4/06/10	Matter involved an open institution and the loss sharing agreement (LSA) was terminated prior to completion of our report	<p>On November 23, 2008, the US Federal Parties (Treasury, FDIC, and the New York Federal Reserve, collectively the USFP) entered into an LSA with an open financial institution, to guarantee a percentage of losses on a portion of the institution's assets valued at [REDACTED]. We conducted an evaluation to provide an overview of the institution's LSA and the related controls and monitoring efforts in place and assess the FDIC's efforts in monitoring and protecting the FDIC's interests with respect to the institution's LSA. The institution exited the LSA on [REDACTED] before our draft report had been issued. We issued our product for internal informational purposes only.</p> <p>We found that overall, the controls and monitoring efforts that were in place to protect the FDIC's interests were appropriate. Additionally, each of the USFP provided staff members who were responsible for monitoring the LSA and who worked together in this effort. These staff were supplemented by contractor resources. The institution's internal and external auditors also assessed or planned to assess the institution's compliance with provisions outlined in the Master Agreement. We identified five observations for improvement, and also reported that the FDIC should strive for greater transparency in future LSAs involving taxpayer money.</p>	(b)(4) (b)(4)



Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

April 16, 2010

Honorable Darrell Issa
Ranking Minority Member
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515-6143

Dear Mr. Issa:

This letter and its enclosure present our response to your March 24, 2010 inquiry regarding open and unimplemented recommendations at the Federal Deposit Insurance Corporation (FDIC).

With respect to the second area of interest mentioned in your letter, we do not have specific legislative suggestions to offer regarding improvements to the Inspector General (IG) Act or the Reform Act. We understand our colleagues on the Legislative Committee of the Council of the Inspectors General on Integrity and Efficiency may be conveying the IG community's perspectives in that regard.

We are also providing a copy of our response to the Committee Chairman.

If you need additional information, please feel free to contact me at



(b)(2),(b)(6)

Sincerely,

(b)(6)

Inspector General

Enclosure

Enclosure

**Federal Deposit Insurance Corporation
Office of Inspector General**

1. Open and Unimplemented Recommendations

The FDIC Office of Inspector General (OIG) has identified 15 open and unimplemented recommendations.

- The status of the 15 open and unimplemented recommendations is as follows:
 - For 6 recommendations, the OIG has received some information but has requested additional information to evaluate management's actions in response to the recommendations.
 - For 7 recommendations, the original estimated completion dates have passed.
 - For 2 recommendations, the expected implementation dates are after March 31, 2010.

2. Recommendations with Estimated Cost Savings

The FDIC OIG does not have any open recommendations with estimated cost savings. However, the OIG engaged the Defense Contract Audit Agency (DCAA) to conduct three incurred cost audits of contractors doing business with the FDIC. One of the reports remains open and contains estimated cost savings. Corrective actions taken in response to DCAA audit reports usually result from negotiations between the contractors doing business with the FDIC and the FDIC contracting officer with cognizant responsibility. The following table shows the total dollar amounts involved in the one open report.

AMOUNT EXAMINED	ESTIMATED COST SAVINGS		DATE FIRST COMMUNICATED
	Reported	Agreed to by FDIC	
\$7,573,788	\$41,065	\$26,783	2/1/10

3. Three Most Important Open and Unimplemented Recommendations

FDIC management is taking action to address most open and unimplemented recommendations, and the OIG will continue to coordinate with FDIC management as it does so. Accordingly, we have no recommendations that we believe warrant your attention at this time.

4. Recommendations Accepted and Implemented

During the period January 5, 2009 to March 31, 2010, the FDIC accepted and implemented 69 of 85 OIG recommendations.

- The status of the remaining 16 recommendations are as follows:
 - For 1 recommendation, the recommendation was not agreed to by FDIC management, and the OIG accepted management's decision.

Enclosure

Previously Reported in Section 1, above:

- For 6 recommendations, the OIG has received some information but has requested additional information to evaluate management's actions in response to the recommendations.
- For 7 recommendations, the original estimated completed dates have passed.
- For 2 recommendations, the expected implementation dates are after March 31, 2010.


Federal Deposit Insurance Corporation

3501 N. Fairfax Drive, Arlington, VA. 22226

Office of Inspector General

January 14, 2011

Honorable Charles E. Grassley
 Ranking Member
 Committee on Finance
 United States Senate
 Washington, DC 20510

Dear Senator Grassley:

Enclosed is my office's response to your April 8, 2010 joint request with Senator Tom Coburn, Ranking Member of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations, for biannual reports on all closed investigations, evaluations, and audits conducted by my office that were not disclosed to the public. Through coordination with the Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency, we understand that the period to be covered by this biannual report is May 1, 2010 through September 30, 2010.

Similar to our June 15, 2010 response to your joint request, we are providing in the enclosure relevant, summary information and have avoided including Privacy Act-protected information or specific personal identifiers. The closed non-public investigations and audits listed in the enclosure either (1) involve open financial institutions, which, as a matter of practice, we do not release to the public because of the high degree of sensitivity associated with the public having information on the internal operations of such institutions, or (2) contain sensitive information about the acquiring institutions' internal control environments. Further, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Coburn as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Committee on Finance. Please feel free to contact me at [redacted], if (b)(2),(b)(6) you need additional information. [redacted] of my staff, is also available to assist you and (b)(2),(b)(6) can be reached at [redacted]

Sincerely,

Jon T. Rymer
 Inspector General

Enclosure

cc: Chair, Senate Committee on Finance

Enclosure

FDIC Office of Inspector General Non-Public Reviews

May 1, 2010 through September 30, 2010

Type of Review	Date Closed	Why Product Was Non-Public	Summary
Investigation	5/4/10	U.S. Attorney's Office (USAO) Declined Prosecution	This investigation was initiated based upon a referral from the FDIC. Three areas of alleged misconduct were identified: (1) it was alleged that a former bank officer defrauded an FDIC-regulated bank by approving a Home Equity Line of Credit for a personal friend, which was above the bank officer's approval authority; (2) the bank officer did not disclose to the bank the existence of a straw loan he took through a relative; and (3) the bank officer directed his personal secretary to alter board meeting documents to conceal the fact that the bank was seeking a charter from the Federal Reserve. The USAO declined to prosecute this matter as the bank did not incur any losses and the officer was removed. The investigation was closed.
Audit	5/11/10	Matter Included Sensitive Information Regarding Acquiring Institution	The objective of this audit was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion, generally 80 to 95 percent, of the loss on a specified pool of assets, purchased by an acquiring institution from the failed bank, in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. The agreements are also intended to minimize disruption of loan customers. This audit determined that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 18 of the 20 recommendations in the report and provided alternative actions that were sufficient to resolve the remaining 2 recommendations. We reported questioned costs of \$10,484,731 in our semiannual report as a result of this audit.
Investigation	5/17/10	USAO Declined Prosecution	This investigation was initiated based on information provided by the FDIC. It was alleged that a bank loan officer was involved in improper lending activities at two different FDIC-regulated banks. No evidence was found to indicate that the bank loan officer received funds from the loans at the two banks or kickbacks for making loans. Based upon this information, the USAO declined this case for criminal prosecution and the investigation was closed.
Investigation	6/30/10	USAO Declined Prosecution	<div> <div> This investigation was initiated based on the </div> <div> <div>(b)(4),(b)(7)(C), (b)(7)(E), (b)(8)</div> <div>(b)(4),(b)(7)(C), (b)(7)(E), (b)(8)</div> </div> </div> <div> <div>The</div> <div>USAO declined to prosecute the case</div> <div>The investigation was (b)(5) closed.</div> </div>

Enclosure

Type of Review	Date Closed	Why Product Was Non-Public	Summary
(b)(7)(E) Investigation	6/30/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral from the FDIC. (b)(7)(E)</p> <p>(b)(7)(E)</p> <p>The USAO declined to prosecute this case citing lack of prosecutorial merit. The investigation was closed.</p>
Audit	9/10/10	Matter Included Sensitive Information Regarding Acquiring Institution	<p>The objective of this audit was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion (i.e., 80 to 95 percent) of the loss on a specified pool of assets, purchased by an acquiring institution from the failed bank, in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. The agreements are also intended to minimize disruption of loan customers. This audit determined that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 19 of the 20 recommendations in the report and provided alternative actions that were sufficient to resolve the remaining recommendation. In our semiannual report, we reported questioned costs of \$9,369,867 and \$231,256 in funds that could be put to better use as a result of this audit.</p>
Audit	9/23/10	Matter Included Sensitive Information Regarding Acquiring Institution	<p>The objective of this audit was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion (i.e., 80 to 95 percent) of the loss on a specified pool of assets, purchased by an acquiring institution from the failed bank, in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. The agreements are also intended to minimize disruption of loan customers. This audit concluded that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 17 of the 18 recommendations in the report and provided alternative actions that were sufficient to resolve the remaining recommendation. In our semiannual report, we reported questioned costs of \$15,778,231 and \$178,586 in funds that could be put to better use as a result of this audit.</p>
(b)(5) Investigation	9/27/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral from the FDIC into allegations that a former loan officer at an FDIC-regulated bank was involved in a relationship with a customer of the bank, which caused a loss of more than \$1,000,000 to the bank because of the financial arrangements between the two. Documents were received and analyzed. A report of investigation was prepared for and submitted to the USAO for consideration. The USAO declined to prosecute this case (b)(5)</p> <p>The investigation was closed.</p>

Enclosure

Type of Review	Date Closed	Why Product Was Non-Public	Summary
Investigation (b)(5)	9/28/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral from the FDIC, alleging that a former loan officer at a FDIC-regulated bank conspired with others to defraud the bank. The referral alleged that a long-time customer of the bank and business owner amassed a number of loans totaling over \$900,000. These loans were secured by various parcels of real estate and other business assets of the business owner. A number of people were interviewed in connection with the investigation, all denying any involvement or knowledge of the scheme. The USAO declined to prosecute this case due to the [REDACTED] The investigation was closed.</p>
Investigation (b)(5) (b)(5),(b)(7)(C)	9/28/10	USAO Declined Prosecution	<p>This investigation was initiated based on information provided by the FDIC. It was alleged that the founder/director of an FDIC-regulated bank may have engaged in a bank fraud scheme. The OIG reviewed bank records and interviewed members of the limited liability company (LLC), who were acting as loan customers of the bank. The records failed to support some statements made by other members of the LLC. After discussions with our office and the Secret Service, the USAO declined prosecution in this matter [REDACTED] The investigation was closed.</p>



Federal Deposit Insurance Corporation

3501 Fairfax Drive, Arlington, Virginia 22226

Office of Inspector General

June 1, 2011

Honorable Tom Coburn
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
Washington, DC 20510

Dear Senator Coburn:

Enclosed is my office's response to your April 8, 2010 joint request with Senator Charles Grassley, Ranking Member of the Senate Committee on the Judiciary, for biannual reports on all closed investigations, evaluations, and audits conducted by my office that were not disclosed to the public. Through coordination with the Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency, we understand that the period to be covered by this biannual report is October 1, 2010 through March 31, 2011.

Similar to our prior responses to your joint request, we are providing in the enclosure relevant, summary information and have avoided including Privacy Act-protected information or specific personal identifiers. The non-public audits listed in the enclosure involve sensitive information security matters or contain sensitive information about the acquiring institution's or limited liability corporation's internal control environments. The closed investigations listed in the enclosure lacked prosecutorial merit and were not made public. Finally, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Grassley as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations.

(b)(2),(b)(6) Please feel free to contact me at [redacted] if you need additional
(b)(6) information. [redacted] of my staff, is also available to assist you and can be reached at
(b)(2),(b)(6) [redacted]

(b)(6)

Jon T. Rymer
Inspector General

Enclosure

cc: Chair, Permanent Subcommittee on Investigations

FDIC Office of Inspector General Non-Public Reviews
October 1, 2010 through March 31, 2011

Type of Review	Date ¹	Why Product Was Non-Public	Summary
Audit	11/8/10	Report addressed issues associated with information security and contained material that was potentially proprietary.	The audit objective was to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the Federal Information Security Management Act of 2002 (FISMA) and related information security policies, procedures, standards, and guidelines. FISMA requires federal agencies, including the FDIC, to have an annual independent evaluation by agency Inspectors General of their information security program and practices, and to report the results of the evaluation to the Office of Management and Budget. The audit determined that the FDIC had a risk management framework that generally meets FISMA requirements and related information security policies, procedures, standards, and guidelines. However, certain internal control activities could be more effective. The FDIC generally agreed with the 12 recommendations in the report or provided alternative actions that meet the intent of the recommendations and were sufficient to resolve them.
Audit	11/9/10	Report addressed issues associated with a limited liability corporation's internal control environment.	The audit objectives were to assess a limited liability corporation and its affiliated companies' compliance with the structured asset sale agreements with the FDIC and the FDIC's monitoring of the agreements. The FDIC has primary responsibility for resolving a failed financial institution and managing the resulting receivership, including the liquidation of assets. One of the liquidation strategies available to the FDIC is the structured asset sale whereby assets of a failed institution, such as loans and real estate owned, are transferred from the receivership to a limited liability corporation established by the FDIC. Either a portion or the entire ownership interest of this limited liability corporation is then sold to a third party, which then has a right to a percentage of net collections, while the FDIC, as the receiver, maintains rights to the remaining share. In addition to receiving a percentage of the net collections, the owner of the limited liability corporation is paid a monthly management fee. The audit determined that both compliance with, and FDIC oversight of, the structured asset sale agreements could be improved. FDIC management agreed with the 24 recommendations in the report, and its planned actions were sufficient to resolve the recommendations. In our semiannual report, we reported questioned costs of \$507,538 and funds put to better use of \$2,509,576 as a result of this audit.

**FDIC Office of Inspector General Non-Public Reviews
October 1, 2010 through March 31, 2011**

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Audit	1/7/11	Matter included sensitive information regarding the acquiring institution.	The audit objective was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion (i.e., 80 to 95 percent) of the loss on a specified pool of assets purchased by an acquiring institution in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. Additionally, loss sharing is operationally simpler for, and more seamless to, failed bank customers. The audit determined that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 13 of the 14 recommendations in the report and associated monetary benefits, and concurred with the intent of the remaining recommendation. In our semiannual report, we reported questioned costs of \$7,591,659 as a result of this audit.
Investigation	2/15/11	U.S. Attorney's Office (USAO) declined prosecution.	<p>This investigation was initiated based on information received from the FDIC and a review of</p> <div style="border: 1px solid black; height: 80px; width: 100%;"></div> <p>were past due. The bank president appeared to accomplish the scheme by drawing on lines of credit without the approval or consent of the customer. The USAO declined to prosecute this case citing insufficient admissible evidence. The investigation was closed.</p>
Investigation	3/16/11	Investigation lacked prosecutorial interest.	This investigation was initiated based upon information provided by the FDIC. It was alleged that a loan officer of an FDIC-regulated bank took bribes to make loans to several bank customers. The allegations stemmed from an anonymous letter sent to the bank alluding to unusual and suspicious practices by the loan officer while he was employed at another financial institution. Based on the letter, bank officials reviewed the loan officer's loan portfolio and found that three loans totaling \$1,509,060 were made to the bank customers. The loans were secured by real estate and the appraised amount of the properties was found to be substantially inflated. Further investigation was conducted, and bank officials determined that the loan officer was an investor in a "spec house" with one of the customers. The financial arrangement was not disclosed to the bank's management. It was determined that there were not sufficient facts or an evidentiary basis to establish a case against the loan officer. No action was taken, and the investigation was closed.

FDIC Office of Inspector General Non-Public Reviews
October 1, 2010 through March 31, 2011

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Investigation	3/22/11	Investigation lacked prosecutorial interest.	This investigation was initiated based upon a referral from the FDIC. It was alleged that a former borrower of an FDIC-regulated bank entered into a settlement with the FDIC in 2001 and allegedly concealed assets in an offshore trust. As part of the settlement, the former borrower made certain representations to the FDIC regarding his assets and provided the FDIC with sworn financial statements. It was alleged by a former business associate of the former borrower that he held \$50 million to \$70 million in offshore trusts. The investigation determined that most of the borrower's assets were beneficial interests in land development deals that ended in litigation rather than profit. Due to lack of prosecutorial interest, the investigation was closed.
Investigation	3/22/11	USAO declined prosecution.	This investigation was initiated based on a complaint received through the FDIC OIG and Small Business Administration (SBA) OIG hotlines regarding members of the Board of Directors of an FDIC-regulated bank. It was alleged that the bank Chairman/CEO falsified SBA loan documents and failed to disclose that he held a majority ownership in the company that received an SBA-guaranteed loan from the FDIC-regulated bank. It was also alleged that in addition to the falsification of certified government documents, the FDIC-regulated bank violated insider lending and Regulation O restrictions by providing a loan to the company owned by the Chairman/CEO. The USAO declined to prosecute
(b)(5)			

ⁱ For audits, the date represents the final report issuance to FDIC management. In the case of investigations, this date represents the date the investigation was closed.



Federal Deposit Insurance Corporation

3501 Fairfax Drive, Arlington, Virginia 22226

Office of Inspector General

June 1, 2011

Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Senator Grassley:

Enclosed is my office's response to your April 8, 2010 joint request with Senator Tom Coburn, Ranking Member of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations, for biannual reports on all closed investigations, evaluations, and audits conducted by my office that were not disclosed to the public. Through coordination with the Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency, we understand that the period to be covered by this biannual report is October 1, 2010 through March 31, 2011.

Similar to our prior responses to your joint request, we are providing in the enclosure relevant, summary information and have avoided including Privacy Act-protected information or specific personal identifiers. The non-public audits listed in the enclosure involve sensitive information security matters or contain sensitive information about the acquiring institution's or limited liability corporation's internal control environments. The closed investigations listed in the enclosure lacked prosecutorial merit and were not made public. Finally, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Coburn as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Committee on the Judiciary. Please feel free to contact me at [REDACTED]

(b)(2),(b)(6)

[REDACTED] if you need additional information [REDACTED] of my staff, is also available to assist you and can be reached at [REDACTED], or [REDACTED]

(b)(2)

(b)(2),(b)(6)

Sincerely,

(b)(6)

Jon T. Rymer
Inspector General

Enclosure

cc: Chair, Senate Committee on the Judiciary

FDIC Office of Inspector General Non-Public Reviews
October 1, 2010 through March 31, 2011

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Audit	11/8/10	Report addressed issues associated with information security and contained material that was potentially proprietary.	The audit objective was to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the Federal Information Security Management Act of 2002 (FISMA) and related information security policies, procedures, standards, and guidelines. FISMA requires federal agencies, including the FDIC, to have an annual independent evaluation by agency Inspectors General of their information security program and practices, and to report the results of the evaluation to the Office of Management and Budget. The audit determined that the FDIC had a risk management framework that generally meets FISMA requirements and related information security policies, procedures, standards, and guidelines. However, certain internal control activities could be more effective. The FDIC generally agreed with the 12 recommendations in the report or provided alternative actions that meet the intent of the recommendations and were sufficient to resolve them.
Audit	11/9/10	Report addressed issues associated with a limited liability corporation's internal control environment.	The audit objectives were to assess a limited liability corporation and its affiliated companies' compliance with the structured asset sale agreements with the FDIC and the FDIC's monitoring of the agreements. The FDIC has primary responsibility for resolving a failed financial institution and managing the resulting receivership, including the liquidation of assets. One of the liquidation strategies available to the FDIC is the structured asset sale whereby assets of a failed institution, such as loans and real estate owned, are transferred from the receivership to a limited liability corporation established by the FDIC. Either a portion or the entire ownership interest of this limited liability corporation is then sold to a third party, which then has a right to a percentage of net collections, while the FDIC, as the receiver, maintains rights to the remaining share. In addition to receiving a percentage of the net collections, the owner of the limited liability corporation is paid a monthly management fee. The audit determined that both compliance with, and FDIC oversight of, the structured asset sale agreements could be improved. FDIC management agreed with the 24 recommendations in the report, and its planned actions were sufficient to resolve the recommendations. In our semiannual report, we reported questioned costs of \$507,538 and funds put to better use of \$2,509,576 as a result of this audit.

**FDIC Office of Inspector General Non-Public Reviews
October 1, 2010 through March 31, 2011**

Type of Review	Date	Why Product Was Non-Public	Summary
Audit	1/7/11	Matter included sensitive information regarding the acquiring institution.	The audit objective was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion (i.e., 80 to 95 percent) of the loss on a specified pool of assets purchased by an acquiring institution in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. Additionally, loss sharing is operationally simpler for, and more seamless to, failed bank customers. The audit determined that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 13 of the 14 recommendations in the report and associated monetary benefits, and concurred with the intent of the remaining recommendation. In our semiannual report, we reported questioned costs of \$7,591,659 as a result of this audit.
Investigation (b)(4), (b)(7)(C), (b)(7)(E), (b)(8)	2/15/11	U.S. Attorney's Office (USAO) declined prosecution.	<p>This investigation was initiated based on information received from the FDIC [REDACTED] (b)(7)(E)</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>(b)(4), (b)(7)(C), (b)(7)(E), (b)(8)</p> <p>(b)(5) [REDACTED]</p> <p>[REDACTED] The USAO declined to prosecute this case citing [REDACTED]</p> <p>[REDACTED] The investigation was closed.</p>
Investigation	3/16/11	Investigation lacked prosecutorial interest.	This investigation was initiated based upon information provided by the FDIC. It was alleged that a loan officer of an FDIC-regulated bank took bribes to make loans to several bank customers. The allegations stemmed from an anonymous letter sent to the bank alluding to unusual and suspicious practices by the loan officer while he was employed at another financial institution. Based on the letter, bank officials reviewed the loan officer's loan portfolio and found that three loans totaling \$1,509,060 were made to the bank customers. The loans were secured by real estate and the appraised amount of the properties was found to be substantially inflated. Further investigation was conducted, and bank officials determined that the loan officer was an investor in a "spec house" with one of the customers. The financial arrangement was not disclosed to the bank's management. It was determined that there were not sufficient facts or an evidentiary basis to establish a case against the loan officer. No action was taken, and the investigation was closed.

**FDIC Office of Inspector General Non-Public Reviews
October 1, 2010 through March 31, 2011**

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Investigation	3/22/11	Investigation lacked prosecutorial interest.	This investigation was initiated based upon a referral from the FDIC. It was alleged that a former borrower of an FDIC-regulated bank entered into a settlement with the FDIC in 2001 and allegedly concealed assets in an offshore trust. As part of the settlement, the former borrower made certain representations to the FDIC regarding his assets and provided the FDIC with sworn financial statements. It was alleged by a former business associate of the former borrower that he held \$50 million to \$70 million in offshore trusts. The investigation determined that most of the borrower's assets were beneficial interests in land development deals that ended in litigation rather than profit. Due to lack of prosecutorial interest, the investigation was closed.
Investigation	3/22/11	USAO declined prosecution.	This investigation was initiated based on a complaint received through the FDIC OIG and Small Business Administration (SBA) OIG hotlines regarding members of the Board of Directors of an FDIC-regulated bank. It was alleged that the bank Chairman/CEO falsified SBA loan documents and failed to disclose that he held a majority ownership in the company that received an SBA-guaranteed loan from the FDIC-regulated bank. It was also alleged that in addition to the falsification of certified government documents, the FDIC-regulated bank violated insider lending and Regulation O restrictions by providing a loan to the company owned by the Chairman/CEO. The USAO declined to prosecute this matter [REDACTED]

(b)(5)

ⁱ For audits, the date represents the final report issuance to FDIC management. In the case of investigations, this date represents the date the investigation was closed.


Federal Deposit Insurance Corporation

3501 Fairfax Drive, Arlington, Virginia 22226

Office of Inspector General

January 20, 2012

Honorable Charles E. Grassley
 Ranking Member
 Committee on the Judiciary
 United States Senate
 Washington, D.C. 20510

Dear Senator Grassley:

Enclosed is my office's response to your April 8, 2010 joint request with Senator Tom Coburn, Ranking Member of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations, for biannual reports on all closed investigations, evaluations, and audits conducted by my office that were not disclosed to the public. Through coordination with the Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency, we understand that the period to be covered by this biannual report is April 1, 2011 through September 30, 2011.

Similar to our prior responses to your joint request, we are providing in the enclosure relevant, summary information and have avoided including Privacy Act-protected information or specific personal identifiers. The non-public audits listed in the enclosure involve internal memoranda sent to FDIC management regarding my office's decision to end an assignment before completing the audit or a completed report containing sensitive information about an open financial institution. The closed investigations listed in the enclosure lacked prosecutorial merit and were not made public. We did not issue any non-public evaluations during this period. As noted in prior correspondence, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Coburn as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Committee on the Judiciary. Please feel free to contact me at [redacted] or [redacted]

(b)(2), (b)(6)

(b)(6)

(b)(2), (b)(6)

Sincerely,

(b)(6)

William T. Rymer
 Inspector General

Enclosure

cc: Chair, Senate Committee on the Judiciary

**FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011**

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Investigation (b)(4),(b)(8)	4/11/11	U.S. Attorney's Office (USAO) Declined Prosecution.	We initiated this investigation based on a request for assistance from the Federal Bureau of Investigation, San Antonio, TX, regarding allegations that a private citizen committed mortgage fraud against Countrywide Home Loans, and committed commercial loan frauds against several FDIC-regulated institutions in Lafayette, New Orleans, and Baton Rouge, Louisiana; and a FDIC-regulated institution in [REDACTED] (b)(4),(b)(6). Additional allegations included securities fraud with [REDACTED] (b)(4),(b)(6). According to the allegations, the citizen also opened accounts with [REDACTED] and placed inflated shares of stock in the accounts. The inflated stock was then used as collateral to fraudulently obtain loans from the institutions in Louisiana and Texas. The loan proceeds were used to purchase psychiatric hospitals, remodel the buildings that housed the psychiatric hospitals, and to spend as operating capital for the psychiatric hospitals. The USAO declined to prosecute due to insufficient proof of criminal intent. This investigation was closed.
Investigation (b)(4),(b)(7)(C), (b)(7)(E)(b)(8)	4/12/11	USAO Declined Prosecution.	We initiated this investigation based on a request for assistance from the FDIC into allegations of fraudulent activities at an FDIC-regulated institution. [REDACTED] (b)(7)(E), (b)(8). During the review of the officer's loan files, a number of delinquent loans were discovered that were later tied to multiple individuals believed to be a part of a mortgage fraud/flipping scheme. The USAO declined to prosecute this case. The investigation was closed.
Audit	5/19/11	Memorandum Sent to FDIC Management to End Assignment.	We engaged a professional services firm to conduct an audit of the FDIC's monitoring and control of structured transactions. During a progress meeting, we learned that the FDIC was significantly changing its procedures for overseeing and monitoring structured transactions and were advised that it would be beneficial to postpone the audit to a later time to allow for a more meaningful assessment of the FDIC's implementation of these revised procedures. We decided to terminate the audit and may undertake further work in the future.
Audit	5/19/11	Memorandum Sent to FDIC Management to End Assignment.	We initiated an audit of the FDIC's contractor management and disposition of owned real estate (ORE). The objectives of the audit were to assess a contractor's compliance with its agreement with the FDIC for ORE asset management and disposition, and related FDIC internal control. We terminated the audit because the work performed on the assignment focused on ORE management and disposition practices that occurred during the period January 1, 2009 through May 31, 2010, and the Corporation's ORE program had substantially evolved since that time. We determined that it would be more cost-beneficial to terminate the audit and leverage the information collected on a new ORE assignment. We communicated relevant control issues and observations identified during fieldwork to corporate management officials. We are following up on these observations and assessing the FDIC's current ORE control structure as part of an ongoing assignment.

FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011

Type of Review	Date ¹	Why Product Was Non-Public	Summary
Audit	5/26/11	Memorandum Sent to FDIC Management to End Assignment.	We engaged a professional services firm to conduct an audit of the FDIC's post closing asset management process. The objective of the audit was to assess the post closing asset management process for selected bank failures, including the oversight and monitoring of assigned receivership asset contractors. We terminated the audit due to concerns pertaining to how various aspects of the audit were performed. We decided to communicate relevant observations and potential control issues identified during the audit to FDIC officials and leverage the information collected on other ongoing and planned audits and evaluations.
Audit	5/27/11	Memorandum Sent to FDIC Management to End Assignment.	We initiated preliminary research in support of an audit of internal controls over the integrity of FDIC's receivership asset information. The objective of the audit was generally to address relevant controls designed to ensure the completeness, accuracy, and validity of receivership asset information stored, processed, and transmitted by FDIC information systems. We closed out this audit because we plan to assess various aspects of the integrity of receivership asset information during other ongoing and planned audits and evaluations, and leverage the information collected during the audit, as appropriate, on other assignments. (b)(4), (b)(8)
Audit	6/10/11	Report included sensitive information about an open financial institution.	We contracted with a professional services firm to conduct an audit of two shared-loss agreements (SLA) that the FDIC has with [REDACTED]. The audit objectives were to assess [REDACTED] compliance with the terms of the SLAs and the FDIC's monitoring and oversight of [REDACTED] compliance with the SLAs. Overall, [REDACTED] submitted timely monthly and quarterly certificates in accordance with the SLAs, indicated a desire to comply with the provisions of the SLAs, and was receptive to recommendations made by the FDIC and its compliance monitoring contractors. However, the firm determined that [REDACTED] compliance with the SLAs needed improvement in a number of areas, and questioned some of [REDACTED] claims on its shared loss certificates and [REDACTED] methodology to calculate the losses relative to the terms of the SLA. The firm made 13 recommendations involving disallowing the questioned claims, improving [REDACTED] compliance with the SLAs, and enhancing the FDIC's monitoring and oversight controls. The FDIC concurred with all 13 recommendations, and we are continuing to monitor the implementation of these recommendations. (b)(4), (b)(8)

(b)(4), (b)(8)

(b)(4), (b)(8)

FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Investigation (b)(7)(C), (b)(7)(E), (b)(8)	6/28/11	USAO Declined Prosecution.	We initiated this investigation based upon a [REDACTED] (b)(7)(E), (b)(8) [REDACTED] [REDACTED] [REDACTED]. The USAO declined to prosecute this case. This investigation was closed.
Investigation (b)(7)(C), (b)(7)(E), (b)(4), (b)(8)	6/30/11	USAO Declined Prosecution.	We initiated this investigation based on a request for assistance from the Internal Revenue Service into allegations that a private citizen was involved in a conversion scheme with several FDIC-regulated institutions. [REDACTED] [REDACTED] The USAO declined to prosecute this case due to a lack of sufficient evidence to support a criminal complaint. This investigation was closed.
Audit	7/26/11	Memorandum Sent to FDIC Management to End Assignment.	We conducted preliminary research to support an audit of interim asset servicers. The objective of the audit was to assess the controls over interim servicing for loan assets that the FDIC retains from failed banks. We closed out the audit because we determined that activity in this area had substantially decreased and concluded that our available resources could be better used to address risks associated with other FDIC programs or activities.
Audit	7/28/11	Memorandum Sent to FDIC Management to End Assignment.	We conducted preliminary research to support a planned audit to assess the FDIC's controls over the preparation of receivership financial statements. We decided to close out the assignment because we concluded that our available resources could be better used to address risks associated with other FDIC programs or activities. Although we did not complete the audit, we communicated relevant control issues and observations identified during our preliminary research to FDIC management. Specifically, we determined that principal and interest payments on three investment securities in one receivership had not been properly remitted to the receivership or recorded in its financial statements. After researching the payments made on these securities, the FDIC determined that a total of \$10.5 million in payments had been misdirected to the acquiring institution, requested that the acquiring institution reimburse the receivership for the misdirected payments, and received a wire payment for \$10.5 million. We subsequently assessed the FDIC's controls over principal and interest payments for receivership securities as part of a publicly available evaluation entitled, <i>Acquisition and Management of Securities Obtained Through Resolution and Receivership Activities</i> (EVAL-12-001).

FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Audit	8/4/11	Memorandum Sent to FDIC Management to End Assignment.	We planned an audit of examination coverage of institutions with SLAs. We performed preliminary research to identify relevant criteria, determine the audit's scope and objectives, and develop the audit methodology. We communicated our preliminary observations to officials in the two FDIC Divisions most involved in examinations of acquiring institutions with SLAs. We subsequently decided to close out the assignment because management agreed with these observations and took responsive steps to address our preliminary observations, including making revisions to guidance to examiners, thus precluding the need for further work.
Audit	8/10/11	Memorandum Sent to FDIC Management to End Assignment.	We engaged a professional services firm to conduct an audit to assess the FDIC's marketing process for structured asset sales. We decided to terminate the audit due to the limited number of structured asset sale transactions that were reviewed, the amount of time that had elapsed since these transactions were consummated, and the evolving nature of the FDIC's structured asset sale process. Although the firm did not complete the audit, the firm did communicate relevant control issues and observations identified during its work to FDIC officials. In addition, we plan to leverage the information collected during this audit on other ongoing and planned audits and evaluations.
Investigation	9/7/11	USAO Declined Prosecution.	We initiated this investigation based on information we received from the FDIC. A Temporary Order to Cease and Desist was issued to an FDIC-regulated institution based on unsafe and unsound actions of both the Chairman of the institution's Board of Directors and its sole stockholder. The investigation revealed that the financial institution had originated subprime loans through a mortgage broker and the stockholder subsequently received dividends of approximately \$15 million for brokering the deal. The USAO declined to prosecute this case. The investigation was closed.

ⁱ For audits, the date represents the final report issuance or communication to FDIC management. In the case of investigations, this date represents the date the investigation was closed.


Federal Deposit Insurance Corporation

3501 Fairfax Drive, Arlington, Virginia 22226

Office of Inspector General

January 20, 2012

Honorable Tom Coburn
 Ranking Member
 Permanent Subcommittee on Investigations
 Committee on Homeland Security and Governmental Affairs
 Washington, DC 20510

Dear Senator Coburn:

Enclosed is my office's response to your April 8, 2010 joint request with Senator Charles Grassley, Ranking Member of the Senate Committee on the Judiciary, for biannual reports on all closed investigations, evaluations, and audits conducted by my office that were not disclosed to the public. Through coordination with the Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency, we understand that the period to be covered by this biannual report is April 1, 2011 through September 30, 2011.

Similar to our prior responses to your joint request, we are providing in the enclosure relevant, summary information and have avoided including Privacy Act-protected information or specific personal identifiers. The non-public audits listed in the enclosure involve internal memoranda sent to FDIC management regarding my office's decision to end an assignment before completing the audit or a completed report containing sensitive information about an open financial institution. The closed investigations listed in the enclosure lacked prosecutorial merit and were not made public. We did not issue any non-public evaluations during this period. As noted in prior correspondence, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Grassley as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations.

(b)(2),(b)(6) Please feel free to contact me at [REDACTED] if you need additional
 (b)(6) information. [REDACTED] of my staff, is also available to assist you and can be reached at

(b)(2),(b)(6)

Sincerely,

(b)(6)

Jon T. Rymer
 Inspector General

Enclosure

cc: Chair, Permanent Subcommittee on Investigations

**FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011**

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Investigation (b)(4),(b)(8)	4/11/11	U.S. Attorney's Office (USAO) Declined Prosecution.	We initiated this investigation based on a request for assistance from the Federal Bureau of Investigation, San Antonio, TX, regarding allegations that a private citizen committed mortgage fraud against Countrywide Home Loans, and committed commercial loan frauds against several FDIC-regulated institutions in Lafayette, New Orleans, and Baton Rouge, Louisiana; and a FDIC-regulated institution in [REDACTED] (b)(4). Additional allegations included securities fraud with [REDACTED] (b)(4). According to the allegations, the citizen also opened accounts with [REDACTED] (b)(4) and placed inflated shares of stock in the accounts. The inflated stock was then used as collateral to fraudulently obtain loans from the institutions in Louisiana and Texas. The loan proceeds were used to purchase psychiatric hospitals, remodel the buildings that housed the psychiatric hospitals, and to spend as operating capital for the psychiatric hospitals. The USAO declined to prosecute due to insufficient proof of criminal intent. This investigation was closed.
Investigation (b)(4),(b)(7)(C), (b)(7)(E),(b)(8)	4/12/11	USAO Declined Prosecution.	We initiated this investigation based on a request for assistance from the FDIC into allegations of fraudulent activities at an FDIC-regulated institution. [REDACTED] (b)(4). During the review of the officer's loan files, a number of delinquent loans were discovered that were later tied to multiple individuals believed to be a part of a mortgage fraud/flipping scheme. The USAO declined to (b)(7)(E),(b)(8) prosecute this case. The investigation was closed.
Audit	5/19/11	Memorandum Sent to FDIC Management to End Assignment.	We engaged a professional services firm to conduct an audit of the FDIC's monitoring and control of structured transactions. During a progress meeting, we learned that the FDIC was significantly changing its procedures for overseeing and monitoring structured transactions and were advised that it would be beneficial to postpone the audit to a later time to allow for a more meaningful assessment of the FDIC's implementation of these revised procedures. We decided to terminate the audit and may undertake further work in the future.
Audit	5/19/11	Memorandum Sent to FDIC Management to End Assignment.	We initiated an audit of the FDIC's contractor management and disposition of owned real estate (ORE). The objectives of the audit were to assess a contractor's compliance with its agreement with the FDIC for ORE asset management and disposition, and related FDIC internal control. We terminated the audit because the work performed on the assignment focused on ORE management and disposition practices that occurred during the period January 1, 2009 through May 31, 2010, and the Corporation's ORE program had substantially evolved since that time. We determined that it would be more cost-beneficial to terminate the audit and leverage the information collected on a new ORE assignment. We communicated relevant control issues and observations identified during fieldwork to corporate management officials. We are following up on these observations and assessing the FDIC's current ORE control structure as part of an ongoing assignment.

FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Audit	5/26/11	Memorandum Sent to FDIC Management to End Assignment.	We engaged a professional services firm to conduct an audit of the FDIC's post closing asset management process. The objective of the audit was to assess the post closing asset management process for selected bank failures, including the oversight and monitoring of assigned receivership asset contractors. We terminated the audit due to concerns pertaining to how various aspects of the audit were performed. We decided to communicate relevant observations and potential control issues identified during the audit to FDIC officials and leverage the information collected on other ongoing and planned audits and evaluations.
Audit	5/27/11	Memorandum Sent to FDIC Management to End Assignment.	We initiated preliminary research in support of an audit of internal controls over the integrity of FDIC's receivership asset information. The objective of the audit was generally to address relevant controls designed to ensure the completeness, accuracy, and validity of receivership asset information stored, processed, and transmitted by FDIC information systems. We closed out this audit because we plan to assess various aspects of the integrity of receivership asset information during other ongoing and planned audits and evaluations, and leverage the information collected during the audit, as appropriate, on other assignments.
Audit	6/10/11	Report included sensitive information about an open financial institution.	We contracted with a professional services firm to conduct an audit of two shared-loss agreements (SLA) that the FDIC has with [REDACTED]. The audit objectives were to assess [REDACTED] compliance with the terms of the SLAs and the FDIC's monitoring and oversight of [REDACTED] compliance with the SLAs. Overall, [REDACTED] submitted timely monthly and quarterly certificates in accordance with the SLAs, indicated a desire to comply with the provisions of the SLAs, and was receptive to recommendations made by the FDIC and its compliance monitoring contractors. However, the firm determined that [REDACTED] compliance with the SLAs needed improvement in a number of areas, and questioned some of [REDACTED] claims on its shared loss certificates and [REDACTED] methodology to calculate the losses relative to the terms of the SLA. The firm made 13 recommendations involving disallowing the questioned claims, improving [REDACTED] compliance with the SLAs, and enhancing the FDIC's monitoring and oversight controls. The FDIC concurred with all 13 recommendations, and we are continuing to monitor the implementation of these recommendations.

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FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Investigation (b)(4), (b)(7)(C), (b)(7)(E), (b)(8)	6/28/11	USAO Declined Prosecution.	<p>We initiated this investigation based upon a [REDACTED] (b)(7)(E), (b)(8)</p> <p>[REDACTED] (b)(4), (b)(7)(C), (b)(7)(E), (b)(8)</p> <p>The USAO declined to prosecute this case. This investigation was closed.</p>
Investigation (b)(4), (b)(7)(E), (b)(8), (b)(7)(E), (b)(8)	6/30/11	USAO Declined Prosecution.	<p>We initiated this investigation based on a request for assistance from the Internal Revenue Service into allegations that a private citizen was involved in a conversion scheme with several FDIC-regulated institutions. [REDACTED]</p> <p>[REDACTED] The USAO declined to prosecute this case due to a [REDACTED] This investigation was closed.</p>
Audit	7/26/11	Memorandum Sent to FDIC Management to End Assignment.	<p>We conducted preliminary research to support an audit of interim asset servicers. The objective of the audit was to assess the controls over interim servicing for loan assets that the FDIC retains from failed banks. We closed out the audit because we determined that activity in this area had substantially decreased and concluded that our available resources could be better used to address risks associated with other FDIC programs or activities.</p>
Audit	7/28/11	Memorandum Sent to FDIC Management to End Assignment.	<p>We conducted preliminary research to support a planned audit to assess the FDIC's controls over the preparation of receivership financial statements. We decided to close out the assignment because we concluded that our available resources could be better used to address risks associated with other FDIC programs or activities. Although we did not complete the audit, we communicated relevant control issues and observations identified during our preliminary research to FDIC management. Specifically, we determined that principal and interest payments on three investment securities in one receivership had not been properly remitted to the receivership or recorded in its financial statements. After researching the payments made on these securities, the FDIC determined that a total of \$10.5 million in payments had been misdirected to the acquiring institution, requested that the acquiring institution reimburse the receivership for the misdirected payments, and received a wire payment for \$10.5 million. We subsequently assessed the FDIC's controls over principal and interest payments for receivership securities as part of a publicly available evaluation entitled, <i>Acquisition and Management of Securities Obtained Through Resolution and Receivership Activities</i> (EVAL-12-001).</p>

FDIC Office of Inspector General Non-Public Reviews
April 1, 2011 through September 30, 2011

Type of Review	Date ⁱ	Why Product Was Non-Public	Summary
Audit	8/4/11	Memorandum Sent to FDIC Management to End Assignment.	We planned an audit of examination coverage of institutions with SLAs. We performed preliminary research to identify relevant criteria, determine the audit's scope and objectives, and develop the audit methodology. We communicated our preliminary observations to officials in the two FDIC Divisions most involved in examinations of acquiring institutions with SLAs. We subsequently decided to close out the assignment because management agreed with these observations and took responsive steps to address our preliminary observations, including making revisions to guidance to examiners, thus precluding the need for further work.
Audit	8/10/11	Memorandum Sent to FDIC Management to End Assignment.	We engaged a professional services firm to conduct an audit to assess the FDIC's marketing process for structured asset sales. We decided to terminate the audit due to the limited number of structured asset sale transactions that were reviewed, the amount of time that had elapsed since these transactions were consummated, and the evolving nature of the FDIC's structured asset sale process. Although the firm did not complete the audit, the firm did communicate relevant control issues and observations identified during its work to FDIC officials. In addition, we plan to leverage the information collected during this audit on other ongoing and planned audits and evaluations.
Investigation	9/7/11	USAO Declined Prosecution.	We initiated this investigation based on information we received from the FDIC. A Temporary Order to Cease and Desist was issued to an FDIC-regulated institution based on unsafe and unsound actions of both the Chairman of the institution's Board of Directors and its sole stockholder. The investigation revealed that the financial institution had originated subprime loans through a mortgage broker and the stockholder subsequently received dividends of approximately \$15 million for brokering the deal. The USAO declined to prosecute this case. The investigation was closed.

ⁱ For audits, the date represents the final report issuance or communication to FDIC management. In the case of investigations, this date represents the date the investigation was closed.

**Federal Deposit Insurance Corporation**

3501 N. Fairfax Drive, Arlington, VA. 22226

Office of Inspector General

January 14, 2011

Honorable Tom Coburn
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
Washington, DC 20510

Dear Senator Coburn:

Enclosed is my office's response to your April 8, 2010 joint request with Senator Charles Grassley, Ranking Member of the Senate Committee on Finance, for biannual reports on all closed investigations, evaluations, and audits conducted by my office that were not disclosed to the public. Through coordination with the Legislation Committee of the Council of the Inspectors General on Integrity and Efficiency, we understand that the period to be covered by this biannual report is May 1, 2010 through September 30, 2010.

Similar to our June 15, 2010 response to your joint request, we are providing in the enclosure relevant, summary information and have avoided including Privacy Act-protected information or specific personal identifiers. The closed non-public investigations and audits listed in the enclosure either (1) involve open financial institutions, which, as a matter of practice, we do not release to the public because of the high degree of sensitivity associated with the public having information on the internal operations of such institutions, or (2) contain sensitive information about the acquiring institutions' internal control environments. Further, we do not consider providing you with the enclosed information to be a waiver of any applicable privileges or a public release under the Freedom of Information Act and reserve the right to assert any applicable privileges or exemptions should we receive follow-on requests.

We are sending a similar letter to Ranking Member Grassley as the joint requester for this information. We are also providing a copy of this response to the Chairman of the Senate Homeland Security and Governmental Affairs Permanent Subcommittee on Investigations.

Please feel free to contact me at [redacted] if you need additional information. [redacted] of my staff, is also available to assist you and can be reached at [redacted]

Sincerely,

Jon T. Rymer
Inspector General

Enclosure

cc: Chair, Permanent Subcommittee on Investigations

Enclosure

FDIC Office of Inspector General Non-Public Reviews

May 1, 2010 through September 30, 2010

Type of Review	Date Closed	Why Product Was Non-Public	Summary
Investigation	5/4/10	U.S. Attorney's Office (USAO) Declined Prosecution	This investigation was initiated based upon a referral from the FDIC. Three areas of alleged misconduct were identified: (1) it was alleged that a former bank officer defrauded an FDIC-regulated bank by approving a Home Equity Line of Credit for a personal friend, which was above the bank officer's approval authority; (2) the bank officer did not disclose to the bank the existence of a straw loan he took through a relative; and (3) the bank officer directed his personal secretary to alter board meeting documents to conceal the fact that the bank was seeking a charter from the Federal Reserve. The USAO declined to prosecute this matter. The investigation was closed.
Audit	5/11/10	Matter Included Sensitive Information Regarding Acquiring Institution	The objective of this audit was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion, generally 80 to 95 percent, of the loss on a specified pool of assets, purchased by an acquiring institution from the failed bank, in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. The agreements are also intended to minimize disruption of loan customers. This audit determined that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 18 of the 20 recommendations in the report and provided alternative actions that were sufficient to resolve the remaining 2 recommendations. We reported questioned costs of \$10,484,731 in our semiannual report as a result of this audit.
Investigation	5/17/10	USAO Declined Prosecution	This investigation was initiated based on information provided by the FDIC. It was alleged that a bank loan officer was involved in improper lending activities at two different FDIC-regulated banks. No evidence was found to indicate that the bank loan officer received funds from the loans at the two banks or kickbacks for making loans. Based upon this information, the USAO declined this case for criminal prosecution and the investigation was closed.
Investigation	6/30/10	USAO Declined Prosecution	This investigation was initiated based on the USAO declined to prosecute the case The investigation was closed.

Enclosure

Type of Review	Date Closed	Why Product Was Non-Public	Summary
(b)(5), (b)(7) (F), (b)(5)	6/30/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral from the FDIC. The FDIC received information from a [REDACTED]</p> <p>(b)(5), (b)(7) (F), (b)(5), (b)(7)(L) [REDACTED] The USAO declined to prosecute this case citing [REDACTED]</p> <p>[REDACTED] The investigation was closed.</p>
(b)(5)	9/10/10	Matter Included Sensitive Information Regarding Acquiring Institution	<p>The objective of this audit was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion (i.e., 80 to 95 percent) of the loss on a specified pool of assets, purchased by an acquiring institution from the failed bank, in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. The agreements are also intended to minimize disruption of loan customers. This audit determined that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 19 of the 20 recommendations in the report and provided alternative actions that were sufficient to resolve the remaining recommendation. In our semiannual report, we reported questioned costs of \$9,369,867 and \$231,256 in funds that could be put to better use as a result of this audit.</p>
	9/23/10	Matter Included Sensitive Information Regarding Acquiring Institution	<p>The objective of this audit was to assess the acquiring institution's compliance with the terms of its loss share agreements with the FDIC. Under loss sharing, the FDIC agrees to absorb a portion (i.e., 80 to 95 percent) of the loss on a specified pool of assets, purchased by an acquiring institution from the failed bank, in order to maximize asset recoveries and minimize FDIC losses by keeping the assets in the private sector. The agreements are also intended to minimize disruption of loan customers. This audit concluded that the acquiring institution's compliance with the terms of its loss share agreements with the FDIC could be improved. FDIC management agreed with 17 of the 18 recommendations in the report and provided alternative actions that were sufficient to resolve the remaining recommendation. In our semiannual report, we reported questioned costs of \$15,778,231 and \$178,586 in funds that could be put to better use as a result of this audit.</p>
(b)(5)	9/27/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral from the FDIC into allegations that a former loan officer at an FDIC-regulated bank was involved in a relationship with a customer of the bank, which caused a loss of more than \$1,000,000 to the bank because of the financial arrangements between the two. Documents were received and analyzed. A report of investigation was prepared for and submitted to the USAO for consideration. The USAO declined to prosecute this case citing (b)(5) [REDACTED]</p> <p>[REDACTED] The investigation was closed.</p>

Enclosure

Type of Review	Date Closed	Why Product Was Non-Public	Summary
(b)(5) Investigation	9/28/10	USAO Declined Prosecution	<p>This investigation was initiated based on a referral from the FDIC, alleging that a former loan officer at a FDIC-regulated bank conspired with others to defraud the bank. The referral alleged that a long-time customer of the bank and business owner amassed a number of loans totaling over \$900,000. These loans were secured by various parcels of real estate and other business assets of the business owner. A number of people were interviewed in connection with the investigation, all denying any involvement or knowledge of the scheme. The USAO declined to prosecute this case due to (b)(5)</p> <p>(b)(5) The investigation was closed.</p>
(b)(5) Investigation	9/28/10	USAO Declined Prosecution	<p>This investigation was initiated based on information provided by the FDIC. It was alleged that the founder/director of an FDIC-regulated bank may have engaged in a bank fraud scheme. The OIG reviewed bank records and interviewed members of the limited liability company (LLC), who were acting as loan customers of the bank. The records failed to support some statements made by other members of the LLC. After discussions with (b)(5) the USAO declined (b)(5) prosecution in this matter due to (b)(6)</p> <p>(b)(5) The investigation was closed.</p>