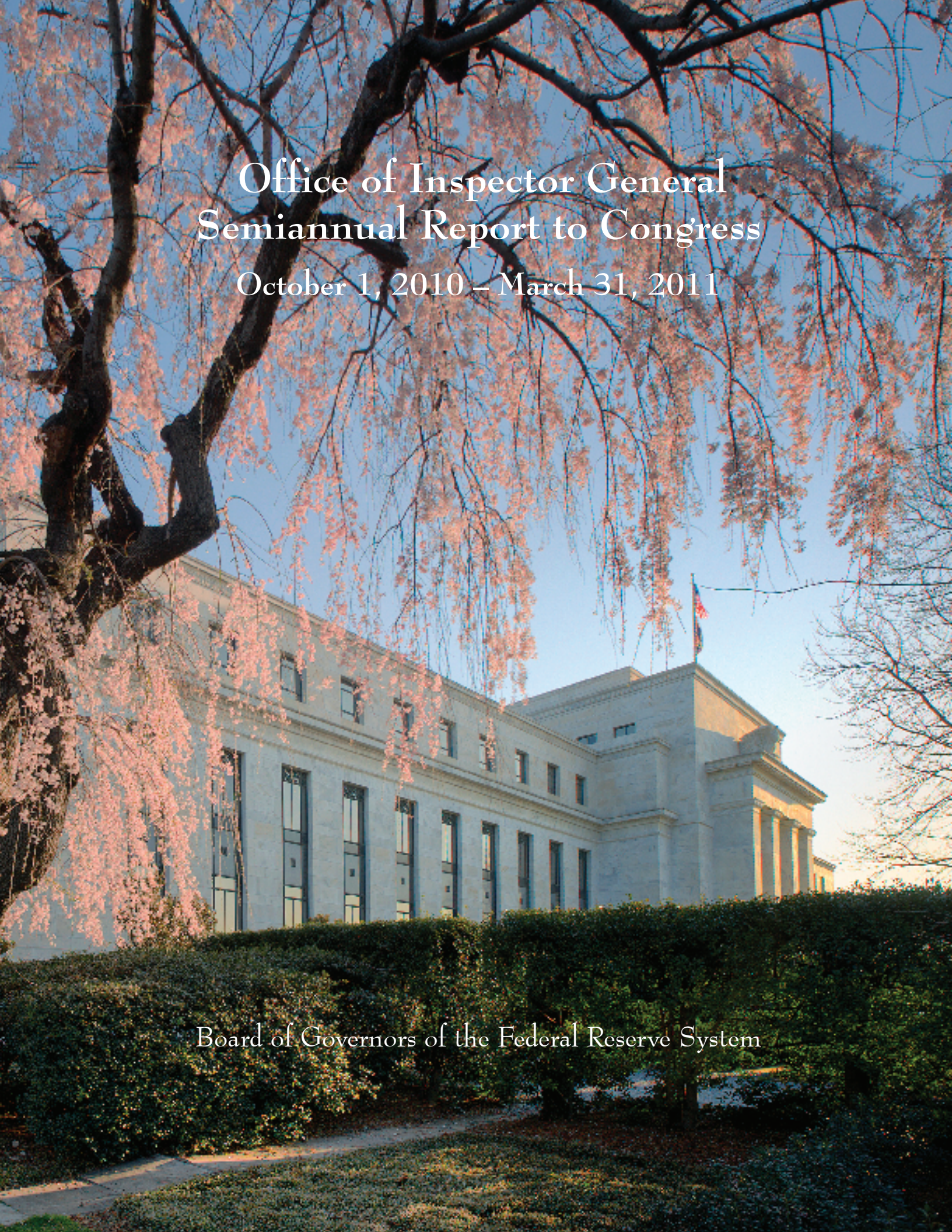
Office of Inspector General Semiannual Report to Congress

October 1, 2010 – March 31, 2011



Board of Governors of the Federal Reserve System

Message from the Inspector General

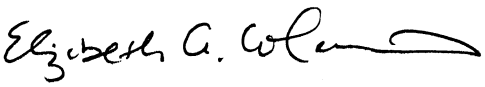
On behalf of the Office of Inspector General (OIG) of the Board of Governors of the Federal Reserve System (Board), I am pleased to present our *Semiannual Report to Congress* highlighting our accomplishments and ongoing work for the six-month period ending March 31, 2011. The OIG conducted a broad range of audits, evaluations, investigations, and other reviews across the Board's mission areas, with a focus on the financial crisis and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which was signed into law in July 2010. For example, our work included reviews of failed state member banks under Board supervision; a review of the function, status, and risk management of the six lending facilities that the Board authorized under section 13(3) of the Federal Reserve Act to support overall market liquidity during the financial crisis; and an investigation that led to a 13-count indictment of a former state member bank Chief Executive Officer on charges that include conspiracy, obstruction of a bank examination, money laundering, and mail and wire fraud. Criminal fines and restitution stemming from other investigations totaled about $1.6 million during this period. We also completed the annual audits of the Board's financial statements and information security program.

In addition, the Dodd-Frank Act created the Bureau of Consumer Financial Protection (Bureau) and designated our office as the OIG for the Bureau. In accordance with the Dodd-Frank Act, the Secretary of the Treasury has designated July 21, 2011, as the date that certain authorities will transfer from other agencies to the Bureau and that the Bureau will be able to exercise additional new authorities. During the reporting period, we completed a joint review with the Department of the Treasury OIG in response to a congressional request related to the Bureau's transparency, organizational structure, and regulatory agenda. We continue to monitor activities under way to stand up the Bureau.

Going forward, we have updated our strategic plan to reflect the significant changes resulting from the financial crisis and the Dodd-Frank Act. This strategic plan incorporates new goals, objectives, and strategies to guide our work for the next several years.

This will be my last semiannual report since I will be retiring on May 3, 2011. It has been a great honor to have served as the Inspector General, and to carry out our mission of independent and balanced oversight. I would like to express my appreciation to Chairman Bernanke, members of the Board, and Congress for their continued support of the OIG's work. I know that the OIG and its employees are well-positioned to carry on their outstanding work at the Board and, more recently, the Bureau. It has been a privilege to work with such a talented, dedicated, and professional staff.

Sincerely,



Elizabeth A. Coleman
Inspector General
April 29, 2011

Semiannual Report to Congress

October 1, 2010 – March 31, 2011

OIG

Office of Inspector General

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Highlights

Consistent with our responsibilities under the Inspector General Act of 1978, as amended (IG Act), and our new responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), we continued to promote the integrity, economy, efficiency, and effectiveness of the programs and operations of the Board of Governors of the Federal Reserve System (Board) and the Bureau of Consumer Financial Protection (Bureau). The following are highlights of our work during this semiannual reporting period.

- **Review of Standup of the Bureau.** Our Bureau-related activities during the period focused on agency "standup" activities and were coordinated with the Department of the Treasury (Treasury) Office of Inspector General (OIG). We completed a joint review with the Treasury OIG in response to a congressional request related to the Bureau's establishment activities.

- **Failed Bank Reviews.** Eight Board-supervised banks failed during the reporting period, with total assets of about $4.6 billion and total losses to the Deposit Insurance Fund (DIF) estimated at $673.1 million. The Dodd-Frank Act raised the materiality threshold for when the OIG is required to conduct a material loss review—currently losses to the DIF in excess of $200 million—but it also established a requirement to review each bank failure with a non-material loss to determine if unusual circumstances exist that warrant a more in-depth review. During this reporting period, we completed nine reviews of failed banks: one material loss review, seven reviews of failed state member banks that fell below the threshold, and one in-depth review of a failed bank that exhibited unusual circumstances.

- **Review of Lending Facilities.** We issued a comprehensive report on the function, status, and risk management of the six lending facilities that the Board authorized, pursuant to section 13(3) of the Federal Reserve Act, in response to the financial crisis. The facilities were intended to help stabilize financial markets and restore overall market liquidity.

- **Financial Statement Audits.** We issued the financial statement audits for the Board and the Federal Financial Institutions Examination Council (FFIEC), both of which received "clean," unqualified opinions. We contracted with Deloitte & Touche LLP, an independent public accounting firm, to conduct the audits, and we oversaw their work.

- **Annual Information Security Audit.** We completed our annual Federal Information Security Management Act of 2002 (FISMA) audit work and found that the Board continued to maintain a FISMA-compliant approach to its information security program.

- **Investigative Accomplishments.** Our investigative staff had several successes during the reporting period.

  A former Chief Executive Officer (CEO) of a failed state member bank was indicted on 13 counts of conspiracy, obstruction of a bank examination, misapplication of bank funds, false bank entries, money laundering, and mail and wire fraud.

  One of the subjects of a multi-agency investigation into an "advance fee" scheme was sentenced to 18 months in federal prison, 6 months home detention, and 1 year of supervised release; and was also ordered to pay $650,000 in restitution to victims who were promised low-interest, multi-million dollar loans.

  A Board employee who we previously reported had pleaded guilty in connection with an investigation into the theft of Board cell phones and the associated calling charges was sentenced to three years probation with conditions and was ordered to pay $59,457 in restitution. The employee was also terminated from Board employment.

  In another multi-agency investigation, a subject pleaded guilty to one count of trafficking in counterfeit goods and was sentenced to 18 months in prison. The subject previously was indicted for knowingly conducting financial transactions affecting interstate and foreign commerce through the structured purchase of Postal Money Orders valued at $579,865 using proceeds from the unlawful sale of counterfeit merchandise throughout the United States.

  In a task force investigation, two subjects were sentenced to six months of home detention and ordered to pay restitution of $859,191 for their participation in a mortgage fraud scheme.

Introduction

Congress established the OIG as an independent oversight authority within the Board, the government agency component of the broader Federal Reserve System. In addition, the Dodd-Frank Act established the OIG as the independent oversight authority for the Bureau. Within this framework, the OIG conducts audits, investigations, and other reviews related to Board and Bureau programs and operations. By law, the OIG is not authorized to perform program functions.

Consistent with the IG Act, our office, as the OIG for the Board and the Bureau,

- conducts and supervises independent and objective audits, investigations, and other reviews related to Board and Bureau programs and operations;
- promotes economy, efficiency, and effectiveness within the Board and the Bureau;
- helps prevent and detect fraud, waste, abuse, and mismanagement in Board and Bureau programs and operations;
- reviews existing and proposed legislation and regulations and makes recommendations regarding possible improvements to Board and Bureau programs and operations; and
- keeps the Board of Governors, the Director of the Bureau, and Congress fully and timely informed.

Congress has also mandated additional responsibilities that influence the OIG's priorities, to include the following:

Section 38(k) of the Federal Deposit Insurance Act (FDI Act) requires that the OIG review failed financial institutions supervised by the Board that result in a material loss to the DIF and produce a report within six months. The Dodd-Frank Act amended section 38(k) of the FDI Act by raising the materiality threshold, but also by requiring that the OIG report on the results of any nonmaterial losses to the DIF that exhibit unusual circumstances that warrant an in-depth review.

In addition, section 211(f) of the Dodd-Frank Act requires that the OIG review the Board's supervision of any covered financial company that is placed into receivership and produce a report that evaluates the effectiveness of the Board's supervision, identifies any acts or omissions by the Board that contributed to or could have prevented the company's receivership status, and recommends appropriate administrative or legislative action.

Furthermore, section 989E of the Dodd-Frank Act established the Council of Inspectors General on Financial Oversight (CIGFO), which is comprised of the Inspectors General (IGs) of the Board, the Commodity Futures Trading Commission, the Department of Housing and Urban Development (HUD), the Treasury, the Federal Deposit Insurance Corporation (FDIC), the Federal Housing

Finance Agency (FHFA), the National Credit Union Administration (NCUA), and the Securities and Exchange Commission (SEC), and the Special IG of the Troubled Asset Relief Program (TARP). The CIGFO is required to meet at least quarterly to share information and discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. Additionally, the CIGFO is required to issue a report annually that highlights the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector.

With respect to information technology (IT), FISMA established a legislative mandate for ensuring the effectiveness of information security controls over resources that support federal operations and assets. Consistent with FISMA's requirements, we perform an annual independent evaluation of the Board's information security program and practices, including the effectiveness of security controls and techniques for selected information systems. We also will conduct an annual independent evaluation of the Bureau's information security program and practices once the Bureau is fully operational.

The USA PATRIOT Act of 2001, Public Law No. 107-56, grants the Board certain federal law enforcement authorities. Our office serves as the external oversight function for the Board's law enforcement program.

Section 11B of the Federal Reserve Act mandates annual independent audits of the financial statements of each Federal Reserve Bank and of the Board. We oversee the annual financial statement audits of the Board, as well as the FFIEC. The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the FDIC, the NCUA, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) and to make recommendations to promote uniformity in the supervision of financial institutions.

Overview of the OIG's Strategic Plan 2011 – 2015

The following chart represents the structure of the OIG's Strategic Plan, which we recently updated to incorporate, among other things, new requirements under the Dodd-Frank Act, including our responsibilities as the OIG for the Bureau.

Mission

The Office of Inspector General (OIG) conducts independent and objective audits, inspections, evaluations, investigations, and other reviews related to the programs and operations of the Board of Governors of the Federal Reserve System (Board) and the Bureau of Consumer Financial Protection (Bureau). Through this work, the OIG promotes integrity, economy, efficiency, and effectiveness; helps prevent and detect fraud, waste, and abuse; and strengthens the agencies' accountability to Congress and the public.

Vision

The OIG promotes positive change, achieves results, fosters constructive working relationships with stakeholders, and protects the public interest through independent and risk-focused oversight of Board and Bureau programs and operations.

Values

Independence – Integrity – Excellence – Professionalism
Empowerment – Diversity – Public Interest

Goal 1

Enhance Economy, Efficiency, and Effectiveness; Limit Risk; Detect and Prevent Fraud and Abuse; and Ensure Compliance in the Federal Reserve Board's Programs and Operations

Objectives

1. Continue to oversee Board governance.
2. Review the Board's functions related to monetary policy and financial stability.
3. Assess the Board's responsibilities related to supervision and regulation.
4. Review the Board's oversight of the Federal Reserve Banks' operations.
5. Evaluate the Board's consumer and community affairs programs.
6. Conduct investigations of possible fraud, waste, abuse, and misconduct associated with Board programs and operations.

Goal 2

Enhance Economy, Efficiency, and Effectiveness; Limit Risk; Detect and Prevent Fraud and Abuse; and Ensure Compliance in the Bureau of Consumer Financial Protection's Programs and Operations

Objectives

1. Address current and emerging issues related to the governance, transfer of functions, and internal operations of the Bureau.
2. Review the Bureau's processes for formulating and issuing rules, orders, and guidance implementing federal consumer financial law.
3. Assess the Bureau's implementation of its supervision and enforcement activities.
4. Identify and review key aspects of the Bureau's role in establishing and implementing financial education programs for consumers of financial services and products.
5. Evaluate the Bureau's functions related to collecting data, researching trends, and tracking and publishing market information on consumer financial products and services.
6. Conduct work on the Bureau's approach to collecting, researching, and responding to consumer complaints.
7. Conduct investigations of possible fraud, waste, abuse, and misconduct associated with Bureau programs and operations.

Goal 3

Enhance the Efficiency and Effectiveness of the OIG's Operations and Communications

Objectives

1. Enhance human resources management.
2. Continue to enhance internal communications.
3. Further expand external communications.
4. Continue to improve our business processes.
5. Further strengthen our technology infrastructure.

Audits & Attestations
Financial/Performance Audits
Attestation Engagements

Inspections & Evaluations
Inspections/Program Evaluations
Best Practice Reviews

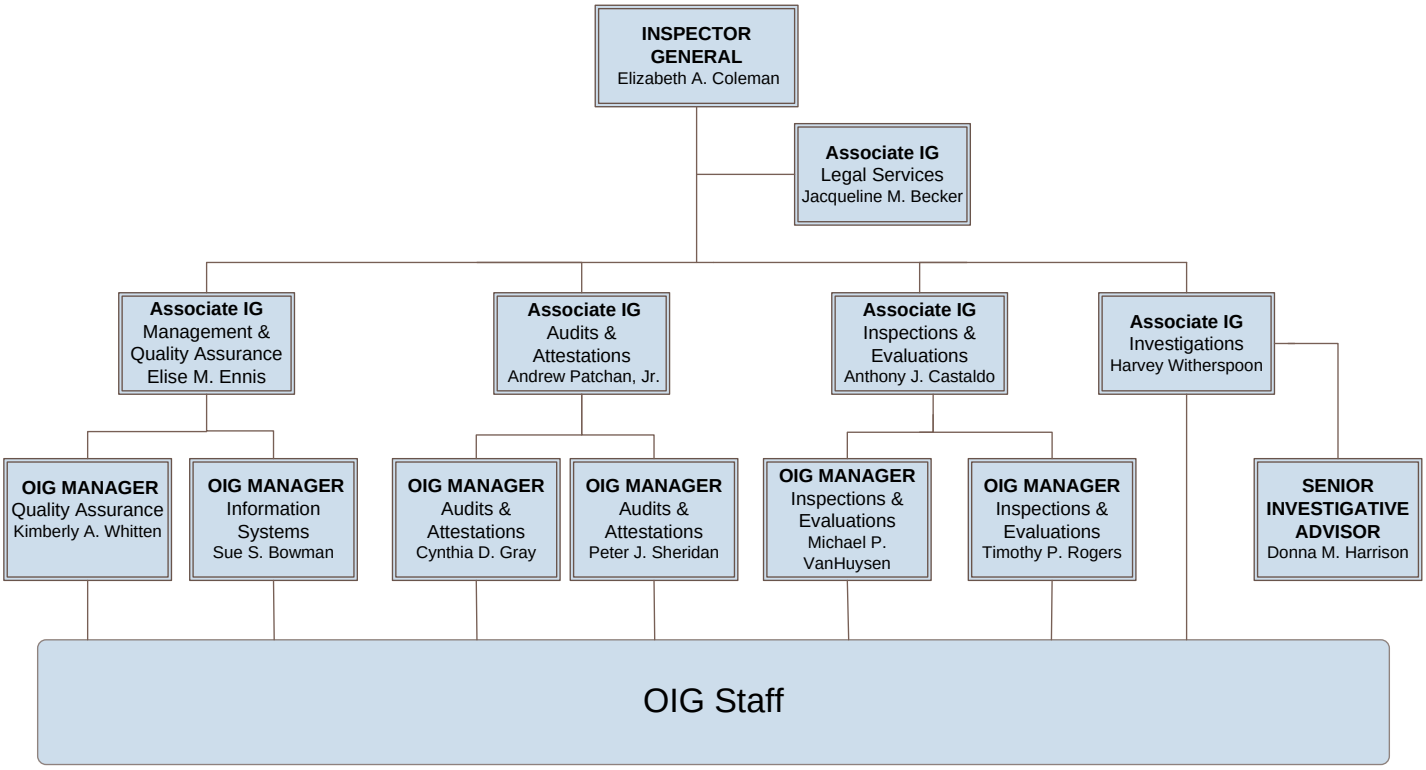
Investigations
Criminal/Civil/Administrative Cases

Legal Services
Counsel to Inspector General
Program/Project Legal Support
Congressional & Media Liaison
Legislative & Regulatory Review

Management & Quality Assurance (QA)
Semiannual and Other Reports
QA and Peer Review
Routine Activities
Internal Operations

Organization Chart

OFFICE OF INSPECTOR GENERAL
(March 2011)



OIG Staffing

Auditors (including Information Technology)	**53**
Investigators	**15**
Legal	**6**
Administrative and Hotline	**6**
Information Systems Analysts	**5**
Total Authorized Positions	**85**

Audits and Attestations

The Audits and Attestations program assesses aspects of the economy, efficiency, and effectiveness of Board and Bureau programs and operations. For example, Audits and Attestations conducts audits of (1) the Board's financial statements and financial performance reports; (2) the effectiveness of processes and internal controls over agency programs and operations; (3) the adequacy of controls and security measures governing agency financial and management information systems and the safeguarding of assets and sensitive information; and (4) compliance with applicable laws and regulations related to agency financial, administrative, and program operations. As mandated by the IG Act, OIG audits and attestations are performed in accordance with the *Government Auditing Standards* established by the Comptroller General. The information below summarizes OIG work completed during the reporting period and ongoing work that will continue into the next semiannual reporting period.

COMPLETED AUDIT WORK AT THE BOARD

Review of the Federal Reserve's Section 13(3) Lending Facilities to Support Overall Market Liquidity

During this reporting period, we issued our final report on *The Federal Reserve's Section 13(3) Lending Facilities to Support Overall Market Liquidity: Function, Status, and Risk Management.* In response to the financial crisis, the Federal Reserve looked beyond its traditional monetary policy tools to restore economic stability, and initiated a number of lending facilities and special programs. Between March and November 2008, the Board, citing "unusual and exigent circumstances," exercised its authority under section 13(3) of the Federal Reserve Act to authorize the creation of the following six lending facilities: the Term Securities Lending Facility (TSLF) (including the TSLF Options Program), the Primary Dealer Credit Facility (PDCF), the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Commercial Paper Funding Facility (CPFF), the Money Market Investor Funding Facility (MMIFF), and the Term Asset-Backed Securities Loan Facility (TALF). The Federal Reserve Bank of New York (FRBNY) was authorized to implement and operate the TSLF, PDCF, CPFF, MMIFF, and TALF, while the Federal Reserve Bank of Boston (FRB Boston) was authorized to implement and operate the AMLF.

The objectives of our review were to (1) determine the overall function and status of each facility, including how it operated, the financial markets it was intended to support, the financial utilization of the facility, the total amount of loans extended, and the current outstanding balances; and (2) identify risks in each facility for the Board's review in exercising its monetary policy function and in its general supervision and oversight of the Federal Reserve Banks.

Through these facilities, FRBNY and FRB Boston provided loans to depository institutions, bank holding companies, commercial paper issuers, and primary

dealers. The lending facilities expanded the Federal Reserve's traditional role as the "lender of last resort" beyond depository institutions, to corporations and other financial institutions. The Federal Reserve determined that such lending was necessary to avoid systemic financial failure within the U.S. economy. The six lending facilities shared the common objectives of reducing risks to financial stability and strengthening the effectiveness of monetary policy by targeting instability in the credit markets and increasing liquidity to corporations and financial institutions.

To respond to severely stressed market conditions and restore economic stability, the six lending facilities were created separately and quickly without the opportunity for extensive planning. In addition, the Federal Reserve designed the lending facilities to generally encourage broad participation by many borrowers. Thus, implementation of the lending facilities involved credit and operational risks, which varied by facility.

By providing for a broad scope of eligible borrowers and types of loan collateral, the lending facilities exposed the Federal Reserve to credit risks that included broad eligibility for borrowers, the non-recourse nature of some of the lending facilities' loans, and the potential aggregate exposure to certain types of collateral and various types of borrowers. To mitigate these risks, the Federal Reserve implemented a number of credit risk management controls that varied by facility, with a focus on ensuring adequate collateral. The Federal Reserve incorporated, in most cases, a "haircut" on the collateral, imposed above-normal market interest rates and usage fees, and contracted with specialized vendors for critical functions.[1]

The short lead time available for planning, coupled with the complex terms and conditions of the lending facilities, created operational risks associated with developing and maintaining policies and procedures; having sufficient, experienced staff to run the facilities; and managing vendor contracts and agent agreements. To mitigate these risks, dedicated teams were established to develop and maintain policies and procedures, operate the programs, and implement controls. To mitigate risks concerning staffing shortages, FRBNY borrowed staff from other sections, hired additional employees, and obtained operational assistance from other Federal Reserve Banks and contractors. To mitigate vendor and agent risks, FRBNY performed on-site reviews of vendors' and agents' compliance with contract and agreement provisions and established contractual conflict of interest provisions.

Overall, general indicators of market stress suggested that the lending facilities helped to stabilize financial markets, and as of the end of our fieldwork on June 30, 2010, the Board reported that none of the lending facilities had experienced

1. A haircut is the amount by which a maximum authorized loan amount is below the value of the assets used as collateral for the loan.

any financial losses. On November 5, 2008, the combined usage of the lending facilities peaked at $600 billion. Each of the six lending facilities has expired, as market conditions have improved. As of June 30, 2010, only the TALF had outstanding loans, which totaled approximately $42.5 billion and were scheduled to mature no later than March 2015. Also as of June 30, 2010, the lending facilities had generated approximately $9.0 billion in interest earnings and fees. Our report did not include any recommendations.

In consolidated comments on a draft of our report, the Board's Division of Reserve Bank Operations and Payment Systems, Division of Monetary Affairs, and Legal Division, indicated that our report provided a clear summary of the purpose, implementation, operation, expiration, and key risks associated with each of the six lending facilities.

Audit of the Board's Financial Statements for the Year Ending December 31, 2010, and Audit of the Federal Financial Institutions Examination Council's Financial Statements for the Year Ending December 31, 2010

We contract for an independent public accounting firm to audit the financial statements of the Board and the FFIEC annually. (The Board performs the accounting function for the FFIEC.) The accounting firm, currently Deloitte & Touche LLP, performs the audits to obtain reasonable assurance that the financial statements are free of material misstatement. The OIG oversees the activities of the contractor to ensure compliance with generally accepted government auditing standards and Public Company Accounting Oversight Board (PCAOB) auditing standards related to internal controls over financial reporting. The audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audits also include an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.

In the auditors' opinion, the Board's and the FFIEC's financial statements presented fairly, in all material respects, the financial position, results of operations, and cash flows of each entity as of December 31, 2010, in conformity with accounting principles generally accepted in the United States. To determine the auditing procedures necessary to express an opinion on the financial statements, the auditors reviewed the Board's and the FFIEC's internal controls over financial reporting. For the second year, the auditors expressed an opinion on the effectiveness of the Board's internal controls over financial reporting based on the PCAOB standards and the *Government Auditing Standards*. In the auditors' opinion, the Board maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010. With regard to the FFIEC's internal controls over financial reporting, the auditors noted no matters that they considered material weaknesses in accordance with the *Government Auditing Standards.*

As part of obtaining reasonable assurance that the financial statements are free of material misstatement, the auditors also performed tests of the Board's and the FFIEC's compliance with certain laws and regulations, since noncompliance with these provisions could have a direct and material effect on the determination of the financial statement amounts. The results of the auditors' tests disclosed no instances of noncompliance that would be required to be reported under the *Government Auditing Standards.*

Audit of the Board's Transportation Subsidy Program

During this reporting period, we completed an audit of the Board's Transportation Subsidy Program (TSP). The Board operates its TSP in support of federal government initiatives to conserve energy, reduce traffic congestion, and improve air quality by encouraging federal employees to commute to work using public transportation. As of December 31, 2010, approximately 1,100 Board employees participated in the TSP, and 2010 Board expenditures for providing TSP benefits totaled about $1.5 million. We began this audit in response to reports of abuse and fraud in the federal transit benefits program at other government agencies. Our objective was to determine the extent to which the Board's TSP is properly controlled and administered. More specifically, we assessed the extent to which the Board's program controls (1) ensure compliance with applicable laws and regulations and management's authorization, and (2) prevent unauthorized or fraudulent activities.

Overall, we concluded that the Board's TSP was reasonably controlled and administered to help ensure compliance with applicable laws and regulations and management's authorization, and to help prevent unauthorized or fraudulent activities. Our audit did not identify significant deficiencies; however, we did identify instances of noncompliance with policies and procedures and opportunities to strengthen controls intended to ensure participants' compliance with TSP requirements. Specifically, we identified weaknesses involving TSP participants (1) continuing to receive benefits after separating from the Board, (2) not providing the Board office responsible for managing the TSP with up-to-date address and commuting cost information, and (3) having a parking permit while also receiving TSP benefits.

Our report contained three recommendations designed to address these matters. In commenting on a draft of our report, the Acting Director of the Management Division agreed with our assessment that opportunities exist to strengthen controls intended to ensure participants' compliance with TSP requirements. He concurred with two of our three recommendations and with the intent of the third recommendation, and he provided improvement actions planned or underway. We will follow up on the implementation of each recommendation as part of our future audit activities.

Audit of the Board's Information Security Program

During this reporting period, we completed our annual audit of the Board's information security program and practices. The audit was performed pursuant to FISMA, which requires that each agency IG conduct an annual independent evaluation of the agency's information security program and practices. Based on FISMA's requirements, our specific audit objectives were to evaluate (1) the Board's compliance with FISMA and related information security policies, procedures, standards, and guidelines; and (2) the effectiveness of security controls and techniques for a subset of the Board's information systems. In accordance with the Office of Management and Budget's (OMB's) revised requirements, our FISMA review included an analysis of the Board's information security-related processes in the following areas: certification and accreditation, continuous monitoring, plans of action and milestones, account and identity management, remote access, security configuration management, security training, contractor oversight, contingency planning, and incident response and reporting. We also followed up on the status of corrective actions in response to five open recommendations from our prior FISMA reports and nine open recommendations from two security control reviews.

Overall, we found that the Board's Chief Information Officer (CIO) continued to maintain a FISMA-compliant approach to the Board's information security program that is generally consistent with requirements established by the National Institute of Standards and Technology (NIST) and OMB. The Information Security Officer (ISO) continued to issue and update information security policies and guidelines, and is piloting a Board-wide IT risk assessment framework to capture technology, operational, and strategic risks for IT resources. As NIST and OMB develop new guidance and update existing standards and publications to transform the traditional certification and accreditation (C&A) process into a new Risk Management Framework, opportunities exist for the CIO to continue to mature the Board's information security processes through further assessment of risks and controls under an organization-wide risk management strategy, with a focus on more continuous monitoring and automated methods.

Our report contained three recommendations. To transform the Board's C&A process into the Risk Management Framework and implement new NIST requirements for assessing security controls, our first recommendation was that the CIO continue to develop and implement a Board-wide IT risk management strategy as required by NIST Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, Program Management family of controls. Our second recommendation was that, as additional NIST and OMB guidance is issued and becomes effective, the CIO develop a continuous monitoring strategy and implement a continuous monitoring program as required by SP 800-53, Security Assessment and Authorization family of controls. Finally, we recommended that the CIO identify all IT services provided by organizations other than Board

personnel, and determine if they need to be accredited as a third-party contractor system or as part of an existing General Support System (GSS) or major application.

In addition, our report included matters for management's consideration based on our analysis of the Board's security-related processes. Although not specifically required by NIST or OMB requirements, the following actions could help to strengthen the Board's information security posture: (1) under the Board's C&A program, provide system owners additional information on security assessments of the GSS components, include additional relevant information in system security plans, and implement risk-based sampling as part of the security control assessment testing; and (2) under the Board's configuration management program, separately accredit the externally facing components of the IT GSS and major applications, and clarify guidance to assist system owners in managing application level security settings.

In following up on the status of corrective actions in response to open recommendations from our prior FISMA reports, we determined that the Board's corrective actions were sufficient to close two of the four recommendations in our 2009 FISMA report. On the other two open recommendations, which related to improving the plans of action and milestones and information security training programs, the ISO has made progress, but corrective action is still under way. Our 2008 FISMA report included a recommendation to ensure that risk assessments adequately identify, evaluate, and document the risks to an information system based on potential threats, vulnerabilities, and controls. We are keeping this recommendation open as we continue to monitor the CIO's and the ISO's actions in overseeing the planned enhancements to the risk assessment process. In following up on the Board's actions in response to the nine open recommendations from our prior security control reviews, we determined that sufficient actions had been taken to close all those recommendations. We will continue to follow up on actions taken regarding our FISMA and security control review report recommendations as part of future audit and evaluation work related to information security.

The Director of the Board's IT division, in her capacity as the CIO for FISMA, generally agreed with the three recommendations in our current report and stated that she intends to take immediate action to address each of the recommendations. This includes updating the Board's program documentation to more accurately reflect the risk management and continuous monitoring programs. In addition, she will be reviewing the system inventory with each division and office to validate that all contractor services are correctly reflected in the inventory. The Director also plans to leverage the results from the continuous monitoring program to offset compliance testing requirements during 2011.

Security Control Review of the Internet Electronic Submission System

We completed a security control review of the Internet Electronic Submission system (IESub), which was developed and is managed by the FRBNY Statistics Function. IESub is a major third-party application on the Board's FISMA application inventory under the Division of Monetary Affairs. It provides an interface to the respondents for regulatory and statistical reports to submit their data via the internet. Our objective was to evaluate the adequacy of selected infrastructure controls for IESub that were provided by the FRBNY Technical Services Group. To accomplish this objective, we used a control assessment review program based on the security controls defined in SP 800-53. The security controls are divided into "families" (such as access controls, risk assessment, and personnel security) and are categorized as system-specific or common (that is, applicable across all systems within a given infrastructure). The scope of our audit included 4 of the 17 control families.

Our audit identified opportunities to strengthen information security controls in the control families that we evaluated. For those control families that were deficient or where improvements could be made, we highlighted recommended actions. The Directors of the Divisions of Monetary Affairs and IT stated that the divisions would work together, along with the FRBNY Technical Services Group when necessary, to address the recommendations in our report and identified that corrective actions have either been implemented or are planned. We will follow up on the implementation of these recommendations as part of our future FISMA-related audit activities.

ONGOING WORK AT THE BOARD

Audit of the Board's Process to Manage Dodd-Frank Act Implementation

During this reporting period, we began an audit of the Board's process to manage its implementation of the Dodd-Frank Act, which was enacted in July 2010. The Dodd-Frank Act established numerous requirements for the Board and other financial regulatory agencies and created the Financial Stability Oversight Council (FSOC) to enhance oversight across the financial sector. In addition to meeting a number of new responsibilities under the act, the Board must draft a number of new regulations, review existing regulations and policies, and conduct various studies. For many of these initiatives, the act specifies deadlines for final actions over a 30-month period following its enactment. In addition, as a member of the CIGFO, the Dodd-Frank Act requires that we provide input to the CIGFO's annual report to Congress and the FSOC regarding concerns and recommendations that may apply to the broader financial sector.

Our audit objectives are to assess (1) the efficiency and effectiveness of the Board's processes for identifying, tracking, and overall managing its

responsibilities under the act; and (2) the Board's progress in implementing key requirements of the act. We plan to report on this audit in the next reporting period.

Audit of the Board's Progress in Developing Enhanced Prudential Standards and Monitoring of Potential Systemic Risks

During this reporting period, we also began an audit of the Board's Division of Banking Supervision and Regulation's (BS&R's) implementation of certain provisions of the Dodd-Frank Act. The Dodd-Frank Act gave the Board important new authorities to safeguard financial stability, including the responsibility for developing enhanced prudential standards for supervising large bank holding companies with total consolidated assets of $50 billion or more and systemically important non-bank financial companies identified by the FSOC. The objectives of this audit are to assess BS&R's approaches to (1) developing enhanced prudential standards for large bank holding companies, including standards that would apply to any non-bank financial company that the FSOC identifies as systemically important; and (2) monitoring potential systemic risks, including emerging mortgage foreclosure-related issues.

Security Control Review of the Board's Public Website

During this period, we completed the fieldwork and began drafting our report for a security control review of the Board's public website (Pubweb). Pubweb is listed as a major application on the Board's FISMA inventory for the Office of Board Members. Pubweb provides information about the mission and work of the Board, including materials required to be made public by the Federal Reserve Act and other federal legislation. Pubweb also provides information to the public related to the functions of the Federal Reserve System, including financial information such as monetary policy reports, testimony and speeches, economic research and data, reporting forms, and consumer information. Our review objectives are to evaluate the effectiveness of selected security controls and techniques for protecting Pubweb from unauthorized access, modification, or destruction; and to ensure compliance with the Board's information security program. We expect to complete this project and issue our final report in the next reporting period.

Security Control Review of the Visitor Registration System

During this period, we completed the fieldwork and began drafting our report for a security control review of the Board's Visitor Registration System. The Visitor Registration System is listed as a major application on the Board's FISMA inventory. The Visitor Registration System allows Board employees to register

visitors to the Board; provides administrative users the ability to manage registered visitors, run reports, and manage access roles; and provides law enforcement officer users the ability to sign visitors in and out, print badges, and manage registered visitors. Our review objectives are to evaluate the effectiveness of selected security controls and techniques for protecting the Visitor Registration System from unauthorized access, modification, or destruction; and to ensure compliance with the Board's information security program. We expect to complete this project and issue our final report in the next reporting period.

Security Control Review of the National Remote Access Services

During this period, we completed the fieldwork and began drafting our report for a security control review of the Federal Reserve System's National Remote Access Services (NRAS). The Board and the 12 Federal Reserve Banks use NRAS for remotely accessing Board and Federal Reserve Bank information systems. Our review objective is to evaluate the effectiveness of selected security controls and techniques to ensure the Board maintains a remote access program that complies with FISMA requirements. We expect to complete this project and issue our final report in the next reporting period.

Security Control Review of FISMA Assets Maintained by the Federal Reserve Bank of Richmond

Pursuant to the requirements of FISMA, we began a security control review of two Lotus Notes applications listed on the Board's FISMA inventory and maintained by the Federal Reserve Bank of Richmond (FRB Richmond). The two database applications are used by FRB Richmond to support bank examinations. Our review objectives are to evaluate the effectiveness of selected security controls and techniques for protecting the two Lotus Notes applications from unauthorized access, modification, or destruction; and to ensure compliance with the Board's information security program. We plan to complete this review and issue the final report in the next reporting period.

Multi-disciplinary Work at the Board

Inquiry into Allegations of Undue Influence

During this reporting period, we continued our inquiry into allegations of inappropriate political influence on Federal Reserve System officials, resulting in hidden transfers of resources to facilitate crimes during the Watergate scandal in the 1970s and to Iraq for weapon purchases during the 1980s. These allegations were raised by a member of Congress during the February 2010 Humphrey-

Hawkins hearing before the House Committee on Financial Services. We initiated our inquiry in response to a request to the Board for an investigation of the allegations from the then Chairman of the House Committee on Financial Services, which the Board referred to our office. We expect to complete this project and issue our final report in the next reporting period.

Inspections and Evaluations

The Inspections and Evaluations program encompasses OIG inspections, program evaluations, enterprise risk management activities, process design and life-cycle evaluations, and legislatively-mandated reviews of failed financial institutions that the Board supervises. Inspections are generally narrowly focused on a particular issue or topic and provide time-critical analysis that cuts across functions and organizations. In contrast, evaluations are generally focused on a specific program or function and make extensive use of statistical and quantitative analytical techniques. Evaluations can also encompass other preventive activities, such as reviews of system development life-cycle projects and participation on task forces and workgroups. OIG inspections and evaluations are performed according to the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

COMPLETED INSPECTION AND EVALUATION WORK AT THE BOARD

Material Loss Reviews

Section 38(k) of the FDI Act requires that the IG of the appropriate federal banking agency complete a review of the agency's supervision of a failed institution and issue a report within six months of notification from the FDIC IG when the projected loss to the DIF is material. Under section 38(k) of the FDI Act, as amended, a material loss to the DIF is defined as an estimated loss in excess of $200 million. Pursuant to the Dodd-Frank Act, this threshold applies if the loss occurs between January 1, 2010, and December 31, 2011.

The material loss review provisions of section 38(k) require that the IG

- review the institution's supervision, including the agency's implementation of prompt corrective action (PCA);
- ascertain why the institution's problems resulted in a material loss to the DIF; and
- make recommendations for preventing any such loss in the future.

The Dodd-Frank Act also establishes specific requirements for bank failures that result in losses below the materiality threshold. In these situations, the IG must review the failure to determine, among other things, whether the loss exhibits unusual circumstances that warrant an in-depth review. In such cases, the IG

must prepare a report in a manner consistent with the requirements of a material loss review. Pursuant to the Dodd-Frank Act, the IG must semiannually report the dates when each such review and report will be completed. If it is determined that a loss did not involve unusual circumstances, the IG is required to provide an explanation of its determination in the above mentioned semiannual report. The OIG has included its report on nonmaterial loss bank failures in this *Semiannual Report to Congress* (see pages 26 and 27).

As shown in the table below, during this reporting period we issued two reports on failed state member banks: one where the loss to the DIF exceeded the materiality threshold, and the other where the loss did not meet the materiality threshold, but presented unusual circumstances.[2] These two banks had total assets of approximately $3.87 billion and total losses estimated at $221.5 million, or approximately 5.7 percent of total assets.

Failed Bank Reviews Completed during the Reporting Period

State Member Bank	Location	Federal Reserve Bank	Asset size (in millions)	DIF Projected Loss (in millions)	Closure Date	FDIC IG Notification Date[a]
Independent Bankers' Bank[b]	Springfield, IL	Chicago	$ 773.7	$ 20.8	12/18/2009	N/A
Midwest Bank and Trust Company	Elmwood Park, IL	Chicago	$3,100.0	$200.7	05/04/2010	06/08/2010

a. Date that our office received notification from the FDIC IG that the projected loss to the DIF would be material.
b. Independent Bankers' Bank did not meet the materiality threshold; however, we determined that the bank's failure presented unusual circumstances that warranted an in-depth review.

Review of the Failure of Independent Bankers' Bank

Independent Bankers' Bank (IBB) opened in 1986 as a state-chartered member bank of the Federal Reserve System. IBB was supervised by the Federal Reserve Bank of Chicago (FRB Chicago), under delegated authority from the Federal Reserve Board, and by the Illinois Department of Financial and Professional Regulation (State). On December 18, 2009, the State closed IBB, under its emergency authority, due to concerns about IBB's ability to continue processing payments on behalf of respondent banks and appointed the FDIC as receiver. According to the FDIC IG, IBB's failure will result in an estimated $20.8 million loss to the DIF, or 2.7 percent of the bank's $773.7 million in total assets. While

2. A total of 38 state member banks failed from December 2008 through March 2011. Of those, 20 failed bank reviews have been completed by the OIG (18 material loss reviews and 2 in-depth, unusual circumstances reviews); 1 material loss review is ongoing; 2 in-depth, unusual circumstances failed bank reviews are in progress; and 15 failed state member banks did not meet the materiality or unusual circumstances review thresholds established in the Dodd-Frank Act. The total estimated loss to the DIF for the 38 banks is approximately $5.2 billion.

the loss is not material, we conducted an in-depth review after determining that IBB's failure presented an unusual circumstance because it was a bankers' bank and was unable to continue processing payments on behalf of its respondent banks.

IBB failed because its Board of Directors and management did not effectively control the risks associated with the bank's business strategy. IBB kept service fees low to attract respondent banks and relied on interest income from its investment portfolio to supplement income. The bank acquired collateralized debt obligations (CDOs), primarily backed by trust preferred securities and private label mortgage-backed securities, to obtain higher yields, and developed a concentrated, high-risk investment portfolio. In addition, the bank depended on non-core funding sources to support asset growth and provide liquidity. A sharp decline in economic conditions, coupled with increasing turmoil in the CDO market, led to rapid devaluation in IBB's investment portfolio and forced the bank to recognize significant losses. These losses eliminated earnings, depleted capital, and severely strained liquidity.

With respect to supervision, FRB Chicago complied with the examination frequency guidelines for the timeframe we reviewed, 2004 through 2009, and conducted regular off-site monitoring. Our analysis of FRB Chicago's supervision of IBB revealed that FRB Chicago had multiple opportunities to take earlier and more forceful supervisory action. Earlier action may have been warranted to address (1) IBB's risky business strategy, (2) the Board of Directors' insufficient management of the bank's investment portfolio risk, (3) early indications of economic decline, and (4) IBB's excessive reliance on non-core funding sources. While we believe that FRB Chicago had opportunities for earlier and more forceful supervisory action, it is not possible for us to predict the effectiveness or impact of any corrective measures that might have been taken by the bank. Therefore, we cannot evaluate the degree to which an earlier or alternative supervisory response would have affected IBB's financial deterioration or the ultimate cost to the DIF.

We believe that IBB's failure highlighted several lessons learned that can be applied when supervising banks with similar characteristics. In our opinion, examiners should obtain a comprehensive understanding of the risks embedded in investment portfolios and any external factors that may heighten these risks. Specifically, examiners should gain thorough knowledge of investment product characteristics and risk attributes and be cognizant of market conditions or significant events that may adversely affect the value of an institution's investments. We also believe that IBB's failure underscored the unique nature of a bankers' bank and the critical functions that a bankers' bank provides to its respondent banks. Therefore, examiners should (1) closely monitor the condition of a bankers' bank to facilitate immediate response to adverse changes; and (2) evaluate risk exposure stemming from concentrations in loans, investments, and funding sources.

Material Loss Review of Midwest Bank and Trust Company

Midwest Bank and Trust Company (Midwest) was supervised by FRB Chicago, under delegated authority from the Federal Reserve Board, and by the Illinois Department of Financial and Professional Regulation (State). The State closed Midwest in May 2010, and the FDIC was named receiver. On June 8, 2010, the FDIC IG notified us that Midwest's failure would result in an estimated loss to the DIF of $200.7 million, or 6.5 percent of the bank's $3.1 billion in total assets.

Midwest failed because of the convergence of various factors. The Board of Directors and management pursued an aggressive growth strategy in 2002 and 2003, without establishing credit risk management controls commensurate with the bank's increasing size and risk profile. These weaknesses contributed to the bank developing commercial real estate (CRE) and construction, land, and land development (CLD) loan concentrations. During this time period, examiners also raised concerns about management's effectiveness and capabilities. These deficiencies resulted in a formal enforcement action in March 2004 that, among other things, required Midwest to enhance its credit risk management and hire a consultant to conduct an independent assessment of management's "functions and performance," including its expertise and qualifications. In response to the independent assessment, the bank overhauled its management team in 2004 and 2005. New management pursued "double-digit" loan growth while attempting to materially reduce loan concentrations, raise capital, and diversify the bank's funding sources. For the most part, management achieved only its growth objectives.

In 2007, Midwest developed an investment portfolio risk by increasing its preferred securities holdings in Fannie Mae and Freddie Mac, two government sponsored enterprises (GSEs). The value of these securities declined precipitously following the onset of the financial crisis in the fall of 2007, and in the first quarter of 2008, the bank took a $17.6 million write-down. The GSEs were placed into conservatorship in September 2008, and Midwest's management subsequently wrote off the remaining $67 million value of these securities. During this time frame, the bank also experienced significant asset quality deterioration in its CRE and CLD loan portfolios. In December 2008, the bank received $84.8 million from the Treasury's TARP, but management failed to raise additional private capital. In 2008 and 2009, Midwest experienced significant losses, and Midwest's holding company injected $87 million in additional capital to preserve the bank's *well capitalized* status. These capital injections depleted the holding company's financial reserves and prevented it from further supplementing the bank's capital. By 2010, Midwest became fully exposed to the loan losses associated with its CRE and CLD asset quality deterioration, which rapidly depleted its capital. The State closed Midwest and appointed the FDIC as receiver on May 14, 2010.

With respect to supervision, FRB Chicago complied with examination frequency guidelines for the timeframe we reviewed and conducted regular off-site monitoring. Our analysis of FRB Chicago's supervision indicated that examiners identified key weaknesses—such as the bank's CRE and CLD concentrations, reliance on non-core funding, and reliance on the holding company's capital support—that contributed to the bank's failure. Yet, examiners did not act on multiple subsequent opportunities to take more forceful supervisory action that might have prompted management to resolve these weaknesses. For example, we believe the findings in a 2004 full scope examination did not warrant the upgrade that was made to Midwest's CAMELS composite rating because the bank had been placed under a formal enforcement action only two weeks prior to the start of the examination.[3] In addition, between 2005 and 2007, FRB Chicago did not hold bank management accountable for failing to diversify the bank's loan portfolio and funding sources. We also noted that a 2008 full scope examination warranted additional CAMELS component rating downgrades and a CAMELS composite downgrade. However, it was not possible to determine whether alternative supervisory actions would have affected Midwest's subsequent decline.

We believe that Midwest's failure offered lessons learned that can be applied to supervising banks with similar characteristics and circumstances. This failure demonstrated (1) the importance of examiners holding management accountable for failing to address fundamental and persistent weaknesses, (2) the risks associated with an aggressive growth strategy that relies heavily on non-core funding and holding company capital support, and (3) the importance of examiners issuing CAMELS composite and component ratings consistent with the narrative comments included in examination reports.

Review of the Joint Implementation Plan for the Transfer of OTS Functions

Title III of the Dodd-Frank Act established provisions for the transfer of authority from the OTS to the OCC, the FDIC, and the Board within one year after the July 21, 2010, date of enactment. Under Title III, the Board receives the functions and rulemaking authority for consolidated supervision of savings and loan holding companies and their non-depository subsidiaries.

The Dodd-Frank Act required that, within 180 days after its enactment, the OTS, the OCC, the FDIC, and the Board jointly submit a plan (Joint Implementation Plan) to Congress and the IGs of the Treasury, the FDIC, and the Board that detailed the steps each agency would take to implement the Title III provisions. The Joint Implementation Plan was submitted to Congress and the IGs on

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3. The CAMELS acronym represents six components: **C**apital adequacy, **A**sset quality, **M**anagement practices, **E**arnings performance, **L**iquidity position, and **S**ensitivity to market risk. Each component and overall composite score is assigned a rating of 1 through 5, with 1 having the least regulatory concern.

January 25, 2011. The Dodd-Frank Act required that the IGs conduct a review to determine whether the implementation plan conformed to the Title III provisions and issue a report within 60 days after the submission of the Joint Implementation Plan.

On March 28, 2011, 60 days after the Joint Implementation Plan was submitted, the IGs jointly issued a report concluding that the actions described in the Joint Implementation Plan generally conformed to the provisions of Title III. The report stated that the Board's component of the implementation plan sufficiently addressed the applicable Title III requirements. The report noted, however, that the Joint Implementation Plan did not address the prohibition against involuntary separation or relocation of transferred OTS employees for 30 months (except under certain circumstances) and, therefore, recommended that the Joint Implementation Plan be amended to address this requirement. The FDIC and the OCC are the agencies receiving OTS employees. In written comments on the IGs' report, the FDIC and the OCC, along with the OTS, concurred with the recommendation. The Board stated in its written comments that it agreed with the conclusion that the Board's part of the plan complied with Title III.

FOLLOW-UP ACTIVITIES AT THE BOARD

Follow-Up on Material Loss Review Recommendations

During the reporting period, we completed a follow-up review of the actions taken on the recommendations in our material loss review reports for First Georgia Community Bank, County Bank, Community Bank of West Georgia, and CapitalSouth Bank. Our follow-up work included reviewing documentation that supported actions taken on the recommendations and communicating with BS&R staff. In all, there were four recommendations, one in each report. We found that BS&R (1) published guidance that reiterated the need for Reserve Banks to follow existing guidelines when there is a disagreement with a state supervisory agency about supervisory ratings; (2) reminded the Reserve Banks to provide timely brokered deposit restriction notifications; (3) updated the *Commercial Bank Examination Manual* to address the de novo examination frequency requirements and cross-reference specific guidance; and (4) published guidance to clarify the circumstances under which the "eligible bank test" should be applied to evaluating merger applications. These actions were sufficient to close the recommendations.

Follow-Up on the Evaluation of Data Flows for Board Employee Data Received by the Office of Employee Benefits and its Contractors

We also completed follow-up work on one of two recommendations made in our report on *Evaluation of Data Flows for Board Employee Data Received by OEB [Office of Employee Benefits] and its Contractors*. Based on our follow-up work that identified process changes, we closed the recommendation that called for further control enhancements over employee data exchanged between the Board and a contractor by implementing an automated solution to eliminate manual processes.

ONGOING INSPECTION AND EVALUATION WORK AT THE BOARD

Failed Bank Reviews

Section 38(k) of the FDI Act, as amended by the Dodd-Frank Act, requires that the OIG review the supervision of failed banks when the losses to the DIF are above the materiality threshold, or are at or below the threshold but exhibit unusual circumstances warranting an in-depth review. A $200 million threshold applies to losses that occur between January 1, 2010, and December 31, 2011. As discussed below, we are currently conducting three failed bank reviews. These banks had total assets of approximately $2.87 billion and total losses estimated at $324.8 million, or approximately 11.3 percent of total assets.

Pierce Commercial Bank

On November 5, 2010, the Washington Department of Financial Institutions closed Pierce Commercial Bank (Pierce), headquartered in Tacoma, Washington. At closure, the FDIC reported that Pierce had $221 million in total assets as of September 30, 2010. On November 5, 2010, the FDIC estimated that the cost of the failure to the DIF would be $21.3 million, which did not meet the materiality threshold as defined under section 38(k) of the FDI Act. However, as discussed in more detail in the next section, the FDI Act, as amended, requires that the IG of each federal banking agency evaluate all losses to the DIF at or below the threshold that occurred after October 1, 2009, and determine whether unusual circumstances exist that warrant an in-depth review. We have determined that Pierce's failure presents unusual circumstances warranting an in-depth review because (1) the bank's engagement in a new business activity—mortgage banking—contributed to the failure, (2) allegedly fraudulent lending practices in the bank's new business activity contributed to the failure, and (3) the bank received $6.8 million in funds from the Treasury's Capital Purchase Program (CPP) under TARP. We expect to issue our report by September 30, 2011.

First Community Bank

On January 28, 2011, the New Mexico Financial Institutions Division closed First Community Bank (First Community), headquartered in Taos, New Mexico. At closure, the FDIC reported that First Community had $2.46 billion in total assets as of September 30, 2010. On February 24, 2011, the FDIC IG notified our office that the FDIC had estimated a $260.0 million loss to the DIF, which exceeds the statutory threshold requiring us to conduct a material loss review. As such, we have initiated a material loss review and plan to issue our report by August 24, 2011.

Legacy Bank

On March 11, 2011, the Wisconsin Department of Financial Institutions closed Legacy Bank (Legacy), headquartered in Milwaukee, Wisconsin. At closure, the FDIC reported that Legacy had $190.4 million in total assets as of December 31, 2010. As of March 11, 2011, the FDIC estimated that the cost of the failure to the DIF would be $43.5 million, which did not meet the materiality threshold as defined under section 38(k) of the FDI Act. However, we have determined that Legacy's failure presents unusual circumstances warranting an in-depth review because (1) examiners concluded that the bank's CEO engaged in an unsafe and unsound banking practice and (2) the bank received $5.5 million in funds from the Treasury's CPP under the TARP. We expect to issue our report by December 31, 2011.

Analysis of Lessons Learned from OIG Bank Failure Reviews

We are conducting a cross-cutting review of the lessons learned from our cumulative body of bank failure reviews to identify themes related to the causes of the bank failures and recommend potential improvements in bank supervisory policies and practices. We have completed our analysis and anticipate issuing our report during the next reporting period.

Review of the Board's Oversight of the Next Generation $100 Note (Currency) Production

On October 1, 2010, the Board announced a delay in the issue date of the redesigned Next Generation $100 note originally scheduled for February 10, 2011. Pursuant to the Federal Reserve Act, the Board is authorized to issue Federal Reserve notes, which are produced by the Treasury's Bureau of Engraving and Printing. The Bureau of Engraving and Printing identified a problem with sporadic creasing of newly printed $100 notes. The OIG is conducting a concurrent review with the Treasury OIG. The objectives of our review are to (1) assess the Board's oversight of the design and production of the

$100 notes, (2) review the actions taken to address the current printing problems and the controls initiated to minimize the likelihood of future printing problems, and (3) assess plans for the disposition of the $100 notes that have already been printed. We expect to issue our report during the next reporting period.

Evaluation of Prompt Regulatory Action Provisions

We are working with the OIGs of the FDIC and the Treasury on a joint evaluation of the prompt regulatory action provisions of the FDI Act. The prompt regulatory action provisions of the FDI Act (section 38, PCA, and section 39, Standards for Safety and Soundness (S&S)) require federal regulators to institute a system of regulatory actions that is triggered when an institution fails to meet minimum capital levels or certain S&S standards. These provisions were intended to increase the likelihood that regulators would respond promptly and forcefully to minimize losses to the DIF when federally insured banks fail. Our work is focused on the following objectives:

- Determining the purpose of and circumstances that led to the prompt regulatory action provisions (FDI Act sections 38 and 39) and lessons learned from the savings and loan crisis;

- Evaluating to what extent PCA and the S&S standards were a factor in bank failures and problem institutions during the current crisis;

- Assessing whether these provisions prompted federal regulators to act more quickly and more forcefully to limit losses to the DIF, in light of findings and lessons learned from the savings and loan crisis and regulators' use of prompt regulatory action provisions in the current crisis; and

- Determining whether there are other non-capital measures that provide a leading indication of risks to the DIF that should be considered as part of the prompt regulatory action provisions.

We plan to issue a joint report during the next reporting period.

Information on Nonmaterial Losses to the Deposit Insurance Fund, as Required by the Dodd-Frank Act

The FDI Act, as amended by the Dodd-Frank Act, requires the IG of the appropriate federal banking agency to report, on a semiannual basis, certain information on financial institutions that incurred nonmaterial losses to the DIF and that failed during the respective six-month period. As shown in the table on the next page, seven failed state member banks had losses to the DIF that did not meet the materiality threshold, which currently is a loss in excess of $200 million. Cumulatively, these institutions had total assets of approximately $2.19 billion and losses estimated at $411.5 million, or 18.8 percent of total assets.

When bank failures result in nonmaterial losses to the DIF, the IG is required to determine (1) the grounds identified by the federal banking agency or the state bank supervisor for appointing the FDIC as receiver, and (2) whether the losses to the DIF present unusual circumstances that would warrant an in-depth review.[4] If no unusual circumstances are identified, the IG is required to provide an explanation of its determination.

We reviewed each of the seven state member bank failures to determine if the resulting loss to the DIF exhibited unusual circumstances that would warrant an in-depth review. In general, we considered a loss to the DIF to present unusual circumstances if the conditions associated with the bank's deterioration, ultimate closure, and supervision were not addressed in any of our prior bank failure reports or involved potential fraudulent activity. To make this determination, we analyzed key data from the five-year period preceding the bank's closure. This data generally comprised Federal Reserve Bank and state examination schedules; Reports of Examination, including CAMELS ratings and financial data; informal and formal enforcement actions and other supervisory activities, such as visitations; and PCA determinations. As shown in the table on the next page, we determined that losses to the DIF for two of the seven state member banks exhibited unusual circumstances warranting in-depth reviews.

4. Typically, the state closes state member banks and appoints the FDIC as receiver.

Nonmaterial State Member Bank Failures, October 1, 2010, through March 31, 2011

State Member Bank	Location	Asset size (millions)	DIF Projected Loss (millions)	Closure Date	OIG Summary of State's Grounds for Receivership	OIG Determination
Progress Bank of Florida	Tampa, FL	$ 93.4	$ 25.0	10/22/2010	Imminent insolvency	No unusual circumstances noted
Pierce Commercial Bank	Tacoma, WA	$ 217.8	$ 21.3	11/05/2010	Unsafe and unsound condition	Unusual circumstances identified; report to be issued by 09/30/2011 (see page 23)
First Banking Center	Burlington, WI	$ 785.8	$ 142.6	11/19/2010	Operating in an unsafe manner	No unusual circumstances noted
Paramount Bank	Farmington Hills, MI	$ 239.3	$ 89.4	12/10/2010	Unsafe and unsound condition	No unusual circumstances noted
First Commercial Bank of Florida	Orlando, FL	$ 614.5	$ 78.0	01/07/2011	Imminent insolvency	No unusual circumstances noted
Community First Bank of Chicago	Chicago, IL	$ 51.5	$ 11.7	02/04/2011	Operating in an unsafe and unsound manner	No unusual circumstances noted
Legacy Bank	Milwaukee, WI	$ 190.4	$ 43.5	03/11/2011	Operating in an unsafe and unsound manner	Unusual circumstances identified; report to be issued by 12/31/2011 (see page 24)

Bureau of Consumer Financial Protection

The Dodd-Frank Act established the Bureau as an independent entity within the Federal Reserve System and designated our office as the Bureau's OIG. The Bureau's statutory purpose is to implement and, as applicable, enforce federal consumer protection law for financial services consistently to ensure that all consumers have access to markets for financial products and services and that these markets are fair, transparent, and competitive. In accordance with the Dodd-Frank Act, the Secretary of the Treasury has designated July 21, 2011, as the date that certain authorities will transfer from other agencies to the Bureau. The following are highlights of our Bureau-related oversight activities during the last six months.

COMPLETED WORK

Joint Response by the IGs of the Treasury and the Board to a Congressional Request for Information Concerning the Bureau

On January 10, 2011, the Board and the Treasury OIGs jointly issued a letter that responded to a November 22, 2010, congressional request for information related to the Bureau's transparency, organizational structure, and regulatory agenda. In order to respond, we (1) reviewed the applicable sections of the Dodd-Frank Act and other relevant laws and (2) requested, obtained, and reviewed relevant information and documentation from the Board and the Treasury. In addition, we interviewed key Treasury officials, including the Assistant to the President and Special Advisor to the Secretary of the Treasury on the Consumer Financial Protection Bureau, the General Counsel, the Chief of Staff of the Bureau Implementation Team, the Deputy Assistant Secretary for Management and Budget, and the Director of the Office of Financial Management.

As noted in our letter, Secretary of the Treasury Timothy Geithner delegated his interim authority to establish the Bureau to Professor Elizabeth Warren and other Treasury officials. Professor Warren is the Assistant to the President and Special Advisor to the Secretary of the Treasury on the Consumer Financial Protection Bureau. According to Treasury, Professor Warren's implementation activities are overseen by Secretary Geithner, and she has regular meetings with senior Treasury officials regarding the status of start-up efforts and the priorities she has identified for the Bureau.

We noted that Treasury implemented a policy to disclose meetings regarding Bureau-related activities between senior Treasury officials, including Professor Warren, and individuals from private sector entities. In addition, Treasury noted that Professor Warren's schedule had been, and would continue to be, posted on its website.

With respect to organizational structure, we reported that the Bureau had prepared a draft organizational plan. Our report also included, as requested, the names of Treasury and Board employees and detailees in certain specified categories of

positions, such as members of the Senior Executive Service, who were working to build the Bureau's infrastructure. To support implementation activities, the Bureau requested and received from the Board nearly $33 million. With regard to the regulatory agenda, Professor Warren provided examples of two policy initiatives that will receive priority: (1) consolidating duplicative and overlapping mortgage disclosure forms mandated by the Truth in Lending Act and the Real Estate Settlement Procedures Act and (2) simplifying credit card agreements to ensure that customers fully understand fees and finance charges.

Finally, we reported that Treasury's interim authority extends beyond the designated transfer date if the Bureau does not have its Director in place at that time. After the July 21, 2011, designated transfer date and until the Director is confirmed, the Treasury Secretary has the authority to carry out certain functions of the Bureau, which include prescribing rules, conducting examinations, and enforcing orders. Treasury cannot, however, exercise the Bureau's newly established authorities, which include prohibiting unfair, deceptive, or abusive acts or practices. As of the end of this reporting period, the Bureau's Director had not been nominated.

In addition to our January 10, 2011, response, we provided two oral briefings to staff members of representatives on the House Committee on Financial Services during this reporting period.

Letter to Congress Regarding Additional Federal Employees Working to Establish the Bureau

On March 15, 2011, we issued a follow-up letter to the November 22, 2010, congressional request on the Bureau's implementation activities. The letter forwarded the names of employees in certain specified categories of positions from federal agencies other than the Board and the Treasury who performed tasks relating to establishing the Bureau. The HUD, the FDIC, the OCC, the OTS, the NCUA, and the Federal Trade Commission provided us the names of more than 100 employees who were working in various capacities to facilitate the transfer of their organizations' functions to the Bureau.

ONGOING WORK

In coordination with the Treasury OIG, we are monitoring the activities that are under way to establish the new Bureau. Our ongoing oversight efforts are primarily focused on issues related to funding, organizational structure and staffing, planning and coordination, and supervisory and rulemaking activities. We will continue to conduct regular meetings with Bureau officials and management and plan to begin specific audits and evaluations related to areas that pose the greatest risks to the Bureau's operations and its ability to fulfill its mission.

Investigations

The Investigations program conducts criminal, civil, and administrative investigations related to Board and Bureau programs and operations. The OIG operates under statutory law enforcement authority granted by the U.S. Attorney General, which vests our special agents with the authority to carry firearms, make arrests without a warrant, seek and execute search and arrest warrants, and seize evidence. Our special agents engage in joint task force and other criminal investigations involving matters such as bank fraud, mortgage fraud, money laundering, and other financially-related crimes impacting federally regulated financial institutions. OIG investigations are conducted in compliance with the CIGIE's *Quality Standards for Investigations*.

INVESTIGATIVE ACTIVITIES

During this reporting period, we opened 3 cases, closed 5 cases, and ended the period with 39 investigations in progress. Due to the sensitivity of these investigations, we only report on concluded and ongoing activities that have resulted in criminal, civil, or administrative action. The following summaries highlight our significant investigative activity during this semiannual reporting period.

Former CEO, President, and Chairman of Orion Bancorp/Orion Bank Indicted on Bank Fraud Charges

On March 30, 2011, a former CEO, President, and Chairman of Orion Bank was indicted on 13 counts of conspiracy, obstruction of a bank examination, misapplication of bank funds, false bank entries, money laundering, and mail and wire fraud. The OIG initiated this investigation into allegations of insider abuse at Orion Bank after Federal Reserve and State of Florida bank examiners identified highly questionable transactions by senior bank management to loan money beyond the legal lending limit to nominee entities controlled by an Orion Bank customer.[5] The Federal Bureau of Investigation (FBI), the FDIC, the Internal Revenue Service, and the Special Inspector General for the TARP are also working on this investigation.

According to the indictment, the CEO conspired with others to create two Limited Liability Companies in order to lend money to nominee entities controlled by an Orion customer to circumvent the State of Florida legal lending limit requirements. The indictment also alleged that the CEO instructed other bank

5. A nominee entity is a person or firm into whose name securities or other properties are transferred by agreement.

executives to fund two loans totaling $80 million despite knowing the customer was not creditworthy and had previously submitted fraudulent financial documentation to Orion Bank, including altered foreign and domestic bank statements, as well as fake trust documents.

The indictment stated that, after the loan transactions were funded, the CEO and others authorized a $15 million stock purchase by the Orion customer. The stock sale proceeds allegedly were passed from Orion Bancorp (the bank holding company) to Orion Bank, creating the illusion of a capital injection into Orion Bank. According to the indictment, the loans to the nominee entities and the stock purchases fraudulently misrepresented Orion Bank's deteriorating loan portfolio and financial condition. The CEO allegedly submitted an Orion Call Report (Report of Condition & Income) to federal regulators with Orion's non-performing loans disguised as current, accruing loans made to borrowers with the financial capacity to repay the debts. The indictment stated that, as a result of the actions taken by the CEO and others, Orion Bank made material misrepresentations to federal and state bank examiners that portrayed Orion Bank's financial condition as significantly better than it actually was at that time.

On November 9, 2009, the Federal Reserve Board issued an enforcement action in the form of a non-consent PCA Directive that included a provision ordering the removal of Orion's CEO, who also served as the bank President and the Chairman of the Board of Directors. The State closed Orion on November 13, 2009, and named the FDIC as receiver. Orion's failure resulted in a $593.8 million loss to the DIF.

Also on March 30, 2011, two senior loan officers pleaded guilty to one count of conspiracy to commit bank fraud and obstructing an examination of a financial institution, and the previously mentioned Orion customer pleaded guilty to one count of conspiracy to commit bank fraud.

California Woman Sentenced to 18 Months for False Personation of a Federal Reserve Official in an Advance Fee Scam

In March 2011, a California woman was sentenced to 18 months in federal prison for participating in an advance fee scheme that collected approximately $3.8 million from victims who were falsely promised low-interest, multi-million dollar loans from "the Federal Reserve Bank." The subject was also sentenced to six months home detention and one year of supervised release. As part of the sentence, the subject was ordered to pay restitution in the amount of $650,000 jointly and severally with another subject.

As indicated in previous semiannual reports, the OIG initiated its investigation into this matter in late 2008. The investigation was conducted jointly with the

FBI, U.S. Immigration and Customs Enforcement, the U.S. Postal Inspection Service, and the Los Angeles Police Department.

The subject represented herself as an employee of the Federal Reserve Bank to individuals in order to obtain money from them. The subject collected up-front "Minimum Required Capital" payments from individuals seeking loans. For example, the subject represented herself to one victim as a junior underwriter with the Federal Reserve Bank who could offer pre-approved commercial loans underwritten by the Federal Reserve Bank on favorable terms with no application paperwork. The victim wired money to the subject, who in turn wired most of the victim's money to another subject. The victim did not receive a loan, and the money he paid to the subject was not returned.

In December 2010, the subject pleaded guilty to a criminal information charging false personation of an employee of a Federal Reserve Bank. As previously reported, the other subject identified during this investigation was sentenced to 96 months in federal prison in June 2010.

Former Board Employee Agrees to Civil Settlement as a Result of Violating Post-Employment Restrictions

On January 20, 2011, a former Board employee agreed to a civil settlement with the U.S. Attorney's Office for the District of Columbia and to pay a settlement amount of $6,000 for violating post-employment restrictions. In November 2009, the OIG received an allegation from the Board that in August and September 2009, a former Board employee made representations to the Board, which violated post-employment restrictions.

The investigation disclosed that the former employee was informed about the post-employment restrictions and was provided with post-employment information in March 2009, prior to her departure from the Board. Pursuant to the settlement agreement, the U.S. Attorney's Office agreed to release the former employee from any further civil or criminal actions or claims relating to her violations of the prohibited conduct in this case.

Former Board Employee Sentenced to Three Years Probation for Theft of Government Property

In December 2010, a former Board employee was sentenced to 3 years probation with conditions, which included 6 months of home confinement and 100 hours of community service, and was ordered to pay $59,457 in restitution. The employee was sentenced after pleading guilty to one count of theft of government property.

As previously reported, in August 2007 the OIG initiated an investigation into an alleged theft of government cellular phones, and in October 2009, the Board employee was indicted for selling at least 10 cellular phones, some for as much as $250 each. Other phones were allegedly traded for services, such as discounts for hairstyling services. The employee was charged with theft of government property, trafficking in unauthorized access devices, and tampering with witness testimony. She was suspended from her job, without pay, and awaited a September 2010 trial, at which time she pleaded guilty to one count of theft of government property. After she entered a guilty plea, the Board terminated her employment.

The investigation disclosed that the alleged thefts occurred between November 2006 and September 2007, while the employee, through her position, had access to the phones. According to the government's evidence, the employee stole at least seven cellular phones and told recipients of the phones that the phones came with unlimited calling plans. The recipients proceeded to incur approximately $60,000 in cellular phone charges that were billed to the Board.

Maryland Husband and Wife Sentenced in Mortgage Fraud Task Force Investigation

In December 2010, a Maryland woman was sentenced to six months of home detention for participating in a mortgage fraud scheme. In January 2011, the woman's husband was also sentenced to six months of home detention for his role in the scheme. Both subjects were also ordered to pay restitution in the amount of $859,191 at a rate of $150 per month each until the debt is jointly and severally satisfied. A third subject has yet to be sentenced for her role in this scheme.

As previously reported in our last semiannual report, OIG special agents assigned to the Maryland Mortgage Fraud Task Force conducted a joint investigation with the FBI into three subjects who conspired to commit a mortgage fraud scheme that netted more than $1.2 million from three federally regulated financial institutions. The investigation disclosed that between June and September 2007, the three subjects submitted false mortgage applications for three properties that included false certifications of occupancy and inflated income. Each of the properties went into foreclosure or short sale, resulting in a total loss to the banks exceeding $850,000.

Individual Sentenced to 18 Months for Trafficking in Counterfeit Goods

During this reporting period, a subject who was previously indicted entered a guilty plea to one count of trafficking in counterfeit goods and was sentenced to 18 months in prison. As was previously reported, the OIG initiated its investigation based on a request for assistance from the U.S. Postal Inspection

Service concerning alleged money laundering and deposit structuring by two subjects. The other subject previously pleaded guilty to one count of trafficking in counterfeit goods.

The investigation determined that, over a one-year period, the subjects deposited approximately $1 million of Postal Money Orders into bank accounts at various financial institutions, including several Board-regulated institutions. Information developed during the investigation revealed that the subjects were aware of the Postal Money Order purchasing requirements and patterned their purchases to avoid detection.

In December 2009, a federal grand jury indicted the subjects on charges of money laundering and trafficking in counterfeit goods. The indictment charged that the subjects knowingly conducted financial transactions affecting interstate and foreign commerce through the structured purchase of 636 Postal Money Orders valued at $579,865, using the proceeds from the unlawful sale of counterfeit merchandise throughout the United States. During this investigation, OIG special agents worked closely with Postal Inspectors analyzing financial transactions in support of the money laundering violations.

INVESTIGATIVE STATISTICS

Summary Statistics on Investigations during the Reporting Period

Investigative Actions	Number
Investigative Caseload	
Investigations Open at End of Previous Reporting Period	41
Investigations Opened during Reporting Period	3
Investigations Closed during Reporting Period	5
Total Investigations Open at End of Reporting Period	39
Investigative Results for Reporting Period	
Referred to Prosecutor	3
Joint Investigations	31
Referred for Audit	0
Referred for Administrative Action	3
Oral and/or Written Reprimands	0
Terminations of Employment	1
Arrests	0
Suspensions	0
Debarments	0
Indictments	1
Criminal Information	0
Convictions	6
Monetary Recoveries	$0
Civil Actions (Fines and Restitution)	$6,000
Criminal Fines (Fines and Restitution)	$1,569,148

HOTLINE ACTIVITIES

Individuals may report fraud, waste, abuse, or mismanagement related to the programs or operations of the Board and the Bureau by contacting the OIG Hotline. During this reporting period, the Hotline received 205 complaints covering a broad range of programs and activities. Coupled with the 42 complaints pending from the previous reporting period, the total number of complaints for the period was 247. Each complaint was analyzed and, as appropriate, coordinated with OIG and/or other federal staff. As warranted, the Hotline referred complaints to the appropriate entities for handling, to include the OIG's program offices, Board offices, and other federal agencies.

A significant number of complainants continued to contact the Hotline regarding suspicious and unsolicited email communications invoking the Federal Reserve name. Hotline staff continues to advise all individuals that these "phishing" scams are solicitations attempting to obtain the personally identifying and/or financial information of the recipient and that neither the Board nor the Federal Reserve Banks endorse or are in any way involved in these solicitations. Many times these fraudulent emails contain images or use language that appears legitimate or use other social engineering techniques to mislead the recipient. As appropriate, the OIG may investigate these complaints. During this reporting period, several complaints involving victims of such scams who incurred monetary losses were referred to the OIG's Investigations program for appropriate action. Hotline staff are currently developing educational material for individuals regarding these fraudulent scams.

The OIG continued to receive a number of complaints from individuals wanting to file non-criminal consumer complaints against financial institutions. Hotline staff analyzes each of these complaints and typically refers the complainant to the consumer complaint group of the appropriate federal regulator for the bank or institution involved in the complaint, such as the Federal Reserve Consumer Help group or the OCC Customer Assistance Group. The Hotline also received inquiries from individuals seeking advice or information regarding monetary policy, consumer protection, and Board regulations. These inquiries were referred to the appropriate Board offices and other federal or state agencies.

Summary Statistics on Hotline Activities during the Reporting Period

Hotline Complaints	Number
Complaints Pending from Previous Reporting Period	42
Complaints Received during Reporting Period*	205
Total Complaints for Reporting Period	247
Complaints Resolved during Reporting Period**	246
Complaints Pending	1

*During this reporting period, management determined that certain matters previously reported as Hotline complaints, such as copies of security incident reports provided by the Board, would no longer be counted as Hotline complaints.
**Based on the decision to no longer count certain matters as Hotline complaints, an adjustment was made to "Complaints Resolved during Reporting Period" to account for "Complaints Pending from Previous Reporting Period" that were no longer defined as Hotline complaints.

Legal Services

The Legal Services program serves as the independent legal counsel to the IG and the OIG staff. The Legal Services staff provides comprehensive legal advice, research, counseling, analysis, and representation in support of OIG audits, investigations, inspections, evaluations, and other professional, management, and administrative functions. This work provides the legal basis for the conclusions, findings, and recommendations contained within OIG reports. Moreover, Legal Services keeps the IG and the OIG staff aware of recent legal developments that may affect the activities of the OIG, the Board and the Bureau.

In accordance with section 4(a)(2) of the IG Act, the Legal Services staff conducts an independent review of newly enacted and proposed legislation and regulations to determine their potential effect on the economy and efficiency of the Board's and the Bureau's programs and operations. During this reporting period, Legal Services reviewed 20 legislative and 11 regulatory items.

Communications and Coordination

While the OIG's primary mission is to enhance the economy, efficiency, and effectiveness of Board and Bureau programs and operations, we also coordinate externally and work internally to achieve our goals and objectives. Externally, we regularly coordinate with and provide information to Congress and congressional staff. We also are active members of the broader IG professional community and promote collaboration on shared concerns. Internally, we consistently strive to enhance and maximize efficiency and transparency in our infrastructure and day-to-day operations. Within the Board, the Bureau, and the Federal Reserve System, we continue to provide information about the OIG's roles and responsibilities. In addition, we participate in an advisory capacity on various Board work groups. Highlights of our activities follow.

Congressional Coordination and Testimony

The OIG has been communicating and coordinating with various congressional committees on issues of mutual interest. During the reporting period, we provided seven responses to congressional members and staff.

Council of Inspectors General on Financial Oversight

Consistent with the Dodd-Frank Act, the CIGFO is required to meet at least quarterly to facilitate the sharing of information among the IGs and to discuss the ongoing work of each IG, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight. The Treasury IG chairs the CIGFO, which held its first meeting in October 2010. The Board's IG served as the CIGFO vice chair. The Dodd-Frank Act authorizes the CIGFO, by a majority vote, to convene a working group to evaluate the effectiveness and internal operations of the FSOC. In addition, the CIGFO is required to annually issue a report that highlights the IGs' concerns and recommendations, as well as issues that may apply to the broader financial sector.

Council of the Inspectors General on Integrity and Efficiency and IG Community Involvement

The IG serves as a member of the CIGIE. Collectively, the members of the CIGIE help improve government programs and operations. The CIGIE provides a forum to discuss government-wide issues and shared concerns. The IG also serves as a member of the CIGIE Legislation Committee, which is the central point of information regarding legislative initiatives and congressional activities that may affect the community.

The Associate IG for Legal Services serves as the Vice Chair of the Council of Counsels to the IG, and her staff attorneys are members of the council. In

addition, the Associate IG for Audits and Attestations serves as co-chair of the IT Committee of the Federal Audit Executive Council and works with audit staff throughout the IG community on common IT audit issues.

Financial Regulatory Coordination

To foster cooperation on issues of mutual interest, including issues related to the current financial crisis, the IG meets periodically with the IGs from other federal financial regulatory agencies: the FDIC, the Treasury, the NCUA, the SEC, the Farm Credit Administration, the Commodity Futures Trading Commission, the Pension Benefit Guarantee Corporation, the Export-Import Bank, and the FHFA. In addition, the Associate IG for Audits and Attestations and the Associate IG for Inspections and Evaluations meet with their financial regulatory agency OIG counterparts to discuss various topics, including bank failure material loss review best practices, annual plans, and ongoing projects. We also coordinate with the Government Accountability Office regarding financial regulatory and other related issues.

OIG Information Technology

During this reporting period, the OIG completed the 2010 annual security review of its IT infrastructure, as required by FISMA. We hired an independent contractor to conduct the review. We also successfully completed our bi-annual IT contingency test in coordination with the Board's IT division. The purpose of the contingency test is to ensure the proper function of the OIG's contingency infrastructure for continuity of operations in the event of an emergency.

We continuously assess technological advances to enhance and optimize our IT services and resources to most effectively achieve our mission and increase productivity and communication. During the coming months, we plan to replace our intranet to enhance functionality and search capability using a web-based application. We will implement a virtualization environment (multiple servers residing on the same machine without interfering with each other) that will allow the OIG staff to conduct their work more efficiently and effectively.

Appendixes

Appendix 1
Audit, Inspection, and Evaluation Reports Issued with Questioned Costs during the Reporting Period[a]

Reports	Number	Dollar Value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the Board and the Bureau are primarily regulatory and policymaking agencies, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation is often not readily quantifiable.

Appendix 2
Audit, Inspection, and Evaluation Reports Issued with Recommendations that Funds Be Put to Better Use during the Reporting Period[a]

Reports	Number	Dollar Value
For which no management decision had been made by the commencement of the reporting period	0	$0
That were issued during the reporting period	0	$0
For which a management decision was made during the reporting period	0	$0
(i) dollar value of recommendations that were agreed to by management	0	$0
(ii) dollar value of recommendations that were not agreed to by management	0	$0
For which no management decision had been made by the end of the reporting period	0	$0
For which no management decision was made within six months of issuance	0	$0

a. Because the Board and the Bureau are primarily regulatory and policymaking agencies, our recommendations typically focus on program effectiveness and efficiency, as well as strengthening internal controls. As such, the monetary benefit associated with their implementation is often not readily quantifiable.

Appendix 3
OIG Reports with Recommendations that Were Open during the Reporting Period[a]

Report Title	Issue Date	Recommendations			Status of Recommendations		
		No.	Mgmt. Agrees	Mgmt. Disagrees	Last Follow-up Date	Closed	Open
Evaluation of Service Credit Computations	08/05	3	3	–	03/07	1	2
Security Control Review of the Central Document and Text Repository System (Non-public Report)	10/06	16	16	–	09/09	14	2
Audit of the Board's Payroll Process	12/06	7	7	–	03/10	3	4
Security Control Review of the Internet Electronic Submission System (Non-public Report)	02/07	13	13	–	09/09	12	1
Audit of the Board's Compliance with Overtime Requirements of the Fair Labor Standards Act	03/07	2	2	–	03/08	1	1
Security Control Review of the Federal Reserve Integrated Records Management Architecture (Non-public Report)	01/08	7	7	–	11/10	7	–
Review of Selected Common Information Security Controls (Non-public Report)	03/08	6	6	–	–	–	6
Security Control Review of the FISMA Assets Maintained by FRB Boston (Non-public Report)	09/08	11	11	–	–	–	11
Evaluation of Data Flows for Board Employee Data Received by OEB and its Contractors (Non-public Report)	09/08	2	2	–	03/11	1	1
Audit of the Board's Information Security Program	09/08	2	2	–	11/10	1	1
Control Review of the Board's Currency Expenditures and Assessments	09/08	6	6	–	03/10	5	1
Audit of Blackberry and Cell Phone Internal Controls	03/09	3	3	–	–	–	3
Inspection of the Board's Law Enforcement Unit (Non-public Report)	03/09	2	2	–	–	–	2
Security Control Review of the Audit Logging Provided by the Information Technology General Support System (Non-public Report)	03/09	4	4	–	–	–	4
Material Loss Review of First Georgia Community Bank	06/09	1	1	–	03/11	1	–
Material Loss Review of County Bank	09/09	1	1	–	03/11	1	–
Audit of the Board's Processing of Applications for the Capital Purchase Program under the Troubled Asset Relief Program	09/09	2	2	–	–	–	2
Audit of the Board's Information Security Program	11/09	4	4	–	11/10	2	2

a. A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the agency is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action, or (2) division management disagrees with the recommendation and we have referred or are referring it to the appropriate oversight committee or administrator for a final decision.

Appendix 3—*continued*
OIG Reports with Recommendations that Were Open during the Reporting Period

Report Title	Issue Date	Recommendations			Status of Recommendations		
		No.	Mgmt. Agrees	Mgmt. Disagrees	Last Follow-up Date	Closed	Open
Material Loss Review of Community Bank of West Georgia	01/10	1	1	–	03/11	1	–
Material Loss Review of CapitalSouth Bank	03/10	1	1	–	03/11	1	–
Security Control Review of the Lotus Notes and Lotus Domino Infrastructure (Non-public Report)	06/10	10	10	–	–	–	10
Audit of the Board's Information Security Program	11/10	3	3	–	–	–	3
Security Control Review of the Internet Electronic Submission System (Non-public Report)	12/10	6	6	–	–	–	6
Review of the Joint Implementation Plan for theTransfer of Office of Thrift Supervision Functions	03/11	1[b]	1	–	–	–	1
Audit of the Board's Transportation Subsidy Program	03/11	3	3	–	–	–	3

b. This recommendation was directed to all principals of the Joint Implementation Plan: the OCC, the FDIC, and the Board. Resolution of the recommendation will require coordination with the OCC and the FDIC.

Appendix 4
Audit, Inspection, and Evaluation Reports Issued during the Reporting Period

Title	Type of Report
Reviews of Bank Failures	
Material Loss Review of Midwest Bank and Trust Company	Evaluation
Review of the Failure of Independent Bankers' Bank	Evaluation
Information Technology Audits	
Audit of the Board's Information Security Program	Audit
Security Control Review of the Internet Electronic Submission System (Non-public Report)	Audit
Program Audits and Evaluations	
The Federal Reserve's Section 13(3) Lending Facilities to Support Overall Market Liquidity: Function, Status, and Risk Management	Audit
Joint Response by the Inspectors General of the Department of the Treasury and Board of Governors of the Federal Reserve System to a Request for Information Regarding the Bureau of Consumer Financial Protection	Evaluation
Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report	Audit
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report	Audit
Review of the Joint Implementation Plan for the Transfer of Office of Thrift Supervision Functions	Evaluation
Audit of the Board's Transportation Subsidy Program	Audit

Total Number of Audit Reports: 6
Total Number of Inspection and Evaluation Reports: 4

Full copies of these reports are available on our website at
http://www.federalreserve.gov/oig/default.htm

Appendix 5
OIG Peer Reviews

Government auditing and investigative standards require that our audit and investigative units each be reviewed by a peer OIG organization every three years. Section 989C of the Dodd-Frank Act amended the IG Act to require that OIGs provide in their semiannual reports to Congress specified information regarding (1) peer reviews of their respective organizations and (2) peer reviews they have conducted of other OIGs. The following information is provided to address the Dodd-Frank Act requirements.

- No peer reviews of the OIG were conducted during this reporting period.
- The last peer review of the OIG's Audits and Attestations program was completed in September 2008 by the U.S. Government Printing Office OIG. No recommendations from this or any prior peer reviews are pending.
- The last peer review of the OIG's Investigations program was completed in March 2008 by the U.S. Government Printing Office OIG. No recommendations from this or any prior peer reviews are pending.
- The Board OIG did not conduct any peer reviews of other OIGs during this reporting period.

Copies of our peer review reports are available on our website at http://www.federalreserve.gov/oig/peer_review_reports.htm.

Appendix 6
Cross-References to the IG Act

Indexed below are the reporting requirements prescribed by the IG Act with the contents of this report.

Section	Source	Page(s)
4(a)(2)	Review of legislation and regulations	36
5(a)(1)	Significant problems, abuses, and deficiencies	None
5(a)(2)	Recommendations with respect to significant problems	None
5(a)(3)	Significant recommendations described in previous semiannual reports on which corrective action has not been completed	None
5(a)(4)	Matters referred to prosecutorial authorities	34
5(a)(5);6(b)(2)	Summary of instances where information was refused	None
5(a)(6)	List of audit, inspection, and evaluation reports	45
5(a)(7)	Summary of particularly significant reports	None
5(a)(8)	Statistical table of questioned costs	41
5(a)(9)	Statistical table of recommendations that funds be put to better use	42
5(a)(10)	Summary of audit, inspection, and evaluation reports issued before the commencement of the reporting period for which no management decision has been made	None
5(a)(11)	Significant revised management decisions made during the reporting period	None
5(a)(12)	Significant management decisions with which the Inspector General is in disagreement	None
5(a)(14), (15), and (16)	Peer review summary	46

Table of Acronyms and Abbreviations

AMLF	Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility
Board	Board of Governors of the Federal Reserve System
BS&R	Division of Banking Supervision and Regulation
Bureau	Bureau of Consumer Financial Protection
C&A	Certification and Accreditation
CDO	Collateralized Debt Obligation
CEO	Chief Executive Officer
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CLD	Construction, Land, and Land Development
CPFF	Commercial Paper Funding Facility
CPP	Capital Purchase Program
CRE	Commercial Real Estate
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHFA	Federal Housing Finance Agency
First Community	First Community Bank
FISMA	Federal Information Security Management Act of 2002
FRB Boston	Federal Reserve Bank of Boston
FRB Chicago	Federal Reserve Bank of Chicago
FRBNY	Federal Reserve Bank of New York

Table of Acronyms and Abbreviations

FRB Richmond	Federal Reserve Bank of Richmond
FSOC	Financial Stability Oversight Council
GSE	Government Sponsored Enterprise
GSS	General Support System
HUD	Department of Housing and Urban Development
IBB	Independent Bankers' Bank
IESub	Internet Electronic Submission System
IG	Inspector General
IG Act	Inspector General Act of 1978, as amended
ISO	Information Security Officer
IT	Information Technology
Legacy	Legacy Bank
Midwest	Midwest Bank and Trust Company
MMIFF	Money Market Investor Funding Facility
NCUA	National Credit Union Administration
NIST	National Institute of Standards and Technology
NRAS	National Remote Access Services
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Thrift Supervision
PCA	Prompt Corrective Action
PCAOB	Public Company Accounting Oversight Board
PDCF	Primary Dealer Credit Facility
Pierce	Pierce Commercial Bank
Pubweb	Public Website
SEC	Securities and Exchange Commission

Table of Acronyms and Abbreviations

S&S	Safety and Soundness
SP	Special Publication
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
Treasury	U.S. Department of the Treasury
TSLF	Term Securities Lending Facility
TSP	Transportation Subsidy Program

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http://www.federalreserve.gov/oig/oig_hotline.htm

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM