



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

DATE: December 16, 2010  
TO: Board of Governors *KMW*  
FROM: Elizabeth A. Coleman *Elizabeth A. Coleman*  
SUBJECT: 2011 Budget Request for the Office of Inspector General

**Action Requested**

Approval of the 2011 budget for the Office of Inspector General (OIG) as follows:

1. An operating budget of \$17,899,401. The budget provides for 85 positions, an increase of 20 positions over the 2010 authorized staffing level of 65 positions.
2. A capital budget of \$85,000, with \$35,000 in single-year funds and \$50,000 in multi-year funds.<sup>1</sup>

**Overview of the OIG's 2011 Budget Components**

Component	Current 2010 OpPlan	Proposed 2011 Budget	Increase (Decrease)	% Increase (% Decrease)
Operating	\$19,239,062	\$17,899,401	(\$1,339,661)	(7%)
Single-year Capital	\$50,000	\$35,000	(\$15,000)	(30%)
Positions	65	85	20	31%

Component	Current Life-cycle Budget	Proposed 2011 Budget	Increase	% Increase
Multi-year Capital	\$374,980	\$50,000	\$50,000	13%

**Summary**

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the role of the OIG has expanded significantly going forward. In particular, the Dodd-Frank Act contains numerous Board responsibilities regarding financial stability and

<sup>1</sup> These funds are in addition to approximately \$375,000 of multi-year capital funds approved during the 2010 mid-year budget review.

related financial regulatory reform that will necessitate the OIG expanding its staffing to provide appropriate oversight. For example, the Board was designated as a member of the Financial Stability Oversight Council (FSOC) and will be regulating systemically significant nonbank financial institutions; thrift holding companies; securities holding companies; and systemically significant financial market utilities and payment, clearing, and settlement activities. In addition, the Dodd-Frank Act designates the OIG as a member of the Council of Inspectors General on Financial Oversight, which has a role in monitoring the activities of the FSOC, as well as in performing other assessments. Further, Title X of the Dodd-Frank Act creates the Bureau of Consumer Financial Protection (Bureau) as an independent entity within the Federal Reserve System, and designates our office as the Bureau's OIG. To meet these new requirements while continuing to address existing mandates, our 2011 budget provides a total of \$12.4 million for personnel services, which includes 20 new positions to be phased in during the year. This is an increase of \$2.7 million (28 percent) over our 2010 personnel services budget. At the same time, the Dodd-Frank Act raised the threshold requirement for when we must conduct material loss reviews of failed state member banks. This legislative change, coupled with a lower than anticipated number of state member bank failures, has allowed us to reduce our projections for contractual professional services by \$4.5 million, which is about a 59 percent reduction in this element of our goods and services budget.

In total, the OIG's proposed 2011 operating budget of \$17.9 million represents a net decrease of \$1.3 million (or 7 percent) from our 2010 operating plan. We anticipate that the 2011 operating budget of \$17.9 million and the new capital budget of \$85,000, will allow us to perform our legislated mandate of conducting audits, investigations, and other reviews of the Board and the Bureau to help improve the economy, efficiency, and effectiveness of their programs and operations, as well as prevent and detect fraud, waste, and abuse. As the Dodd-Frank Act is implemented over the coming years, we note that continuing to meet these legislative mandates and other workload requirements will likely require additional growth in our organization.

### **Discussion**

The 20 new positions are critical for us to effectively conduct legislatively-mandated and discretionary audits, investigations, inspections, and other reviews of Board and Bureau programs and activities. Our work will include reviews related to financial stability; implementation of Dodd-Frank Act requirements; Federal Reserve Bank oversight; supervision and regulation, including holding companies and failed state member banks; activities to stand up the new Bureau; Board and Bureau consumer programs; information security; procurement; and governance, including financial statement preparation and law enforcement programs. The 20 new positions have an estimated personnel services cost of \$2.8 million for 2011. Other operating costs associated with these new positions are projected to be \$486,988, with the largest portions attributable to anticipated travel to conduct reviews, mandatory training, and furniture and equipment.

Overall, the OIG's training budget (tuition and registration) is \$580,278 to ensure that our employees meet continuing professional education requirements under auditing standards and to provide for management and leadership training. In addition, as required by the Inspector General

Reform Act of 2008, our training request also includes \$19,000 to support the operations of the Council of the Inspectors General on Integrity and Efficiency. These costs combine with our other operating costs for a total operating budget of \$17,899,401. As noted earlier, our operating budget for 2011 represents a reduction of almost 7 percent from our 2010 operating budget, primarily due to the reduction in our projected need to obtain contractual professional services.

Our new capital budget of \$85,000 includes (1) \$35,000 of single-year funds for a new vehicle for our investigative staff necessitated by increases in workload and staff, and (2) \$50,000 of multi-year funds for additional requirements related to the replacement of a critical database that supports our investigations function.

We believe our budget request will allow us to meet requirements for 2011; however, we also recognize that changing events and a competitive market for needed staff skills may impact budget implementation and necessitate adjustments going forward. We will continue to be diligent in managing our resources, and we will inform the Board of any changes that significantly impact our operations.

The OIG's budget is prepared in a manner that is administratively consistent with the preparation of the Board's budget, but it is submitted separately consistent with the independence of the office.

Our staffing request and its budgetary implications have been discussed with Mr. Stephen Malphrus, Governor Warsh, Vice Chair Yellen, and Chairman Bernanke. Consistent with requirements from the Inspector General Reform Act, a summary statement regarding this budget request is included as enclosure 1 (see page 4). A summary table of our proposed 2011 budget request is included as enclosure 2 (see page 5). Please contact me if you have any questions or wish to discuss this matter further.

cc: Mr. Stephen Malphrus

**Enclosure 1: Inspector General Summary Statement per Inspector General Reform Act**

The Inspector General Reform Act (Pub. L. 110-409) was signed by the President on October 14, 2008. Section 6(f)(1) of the Inspector General Act of 1978, 5 U.S.C. app. 3, was amended to require certain specifications concerning OIG budget submissions each fiscal year.

Consistent with these requirements, the OIG of the Board of Governors of the Federal Reserve System submits the following information relating to the OIG's proposed 2010 budget:

- The OIG's proposed 2011 operating budget is \$17,899,401, and proposed new capital budget is \$85,000.
- The portion of this amount needed for OIG training during 2011 is \$580,278.
- The portion of this amount needed to support the operation of the Council of the Inspectors General on Integrity and Efficiency for 2011 is \$19,000.

I certify as the Board's Inspector General that I believe that the amount I have requested for training satisfies all OIG training needs for calendar year 2011.

## Enclosure 2: Summary of the OIG's 2011 Budget Request

Category	OPPLAN-2010	Budget Request 2011	Difference	% Increase over 2010 OPPLAN
Salaries	\$8,027,701	\$10,300,958	\$2,273,257	28.3%
Retirement/Thrift Plan	\$1,063,794	\$1,366,165	\$302,371	28.4%
Employee Insurance	\$606,200	\$778,995	\$172,795	28.5%
<b>Personnel Services</b>	<b>\$9,697,695</b>	<b>\$12,446,118</b>	<b>\$2,748,423</b>	<b>28.3%</b>
Travel	\$756,589	\$899,000	\$142,411	18.8%
Stationery & Supplies	\$23,152	\$32,300	\$9,148	39.5%
Software	\$147,857	\$180,250	\$32,393	21.9%
Furniture & Equipment	\$369,077	\$444,299	\$75,222	20.4%
Rentals	\$3,000	\$0	(\$3,000)	(100.0%)
Books & Subscriptions	\$22,548	\$52,800	\$30,252	134.2%
Repairs & Maintenance	\$8,000	\$12,000	\$4,000	50.0%
Contractual Prof Svcs	\$7,699,310	\$3,190,217	(\$4,509,093)	(58.6%)
Tuition/Registration	\$458,736	\$580,278	\$121,542	26.5%
All Other	\$15,000	\$23,000	\$8,000	53.3%
Depreciation	\$16,694	\$11,562	(\$5,132)	(30.7%)
IRM User Charge	\$21,404	\$27,577	\$6,173	28.8%
<b>Goods &amp; Services</b>	<b>\$9,541,367</b>	<b>\$5,453,283</b>	<b>(\$4,088,084)</b>	<b>(42.8%)</b>
<b>Total Operating Funds</b>	<b>\$19,239,062</b>	<b>\$17,899,401</b>	<b>(\$1,339,661)</b>	<b>(7.0%)</b>