Office of Inspector General Semiannual Report to Congress

October 1, 2009 – March 31, 2010

Board of Governors of the Federal Reserve System

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

OFFICE OF INSPECTOR GENERAL

April 30, 2010

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Chairman Bernanke:

We are pleased to present our *Semiannual Report to Congress*, which summarizes the activities of our office for the reporting period October 1, 2009, through March 31, 2010. The Inspector General Act of 1978, as amended, requires that you transmit this report to the appropriate committees of Congress within 30 days of receipt, together with a separate management report and any comments you wish to make.

Sincerely,

Elizabeth A. Coleman
Inspector General

Enclosure

Semiannual Report to Congress

October 1, 2009 – March 31, 2010

OIG

Office of Inspector General

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Highlights

Consistent with our responsibilities under the Inspector General Act of 1978, as amended, we continued to work with the Board of Governors of the Federal Reserve System (Board) to promote integrity, economy, efficiency, and effectiveness in Board programs and operations; deter fraud, waste, and abuse; and strengthen accountability to the Congress and the public. Highlights of our work during the reporting period follow.

- **Review of Failed Banks**. During this reporting period, 11 state member banks failed, with an estimated loss of $1.74 billion to the Deposit Insurance Fund. All but one of these failures met the statutory threshold requiring our office to conduct a material loss review. We completed 7 material loss reviews this period, and we have work underway for 11 others. An emerging theme from this work is that high concentrations in a risky asset class, such as construction and land development loans, can pose a substantial safety and soundness risk to a financial institution; therefore, an immediate and forceful supervisory response is required when examiners detect a market decline, problems with credit risk management processes, or other such issues (see page 12).

- **Financial Statement Audits.** We contracted with Deloitte & Touche LLP, an independent public accounting firm, to conduct the annual financial statement audits of the Board and the Federal Financial Institutions Examination Council (FFIEC). Both the Board and the FFIEC received "clean," unqualified opinions on their financial statements, consistent with generally accepted government auditing standards. The auditors also audited, in accordance with applicable standards, the effectiveness of the Board's internal control over financial reporting and expressed a clean, unqualified opinion on these controls (see page 5).

- **FISMA.** 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 (see page 6).

- **Review of Lending Facilities.** We completed the field work and the initial draft report for our review of the status of the six lending facilities that the Board established, pursuant to its authority under section 13(3) of the Federal Reserve Act, to help stabilize financial markets (see page 7).

- **Criminal Investigation.** A multi-agency investigation into a scheme to defraud individuals and entities seeking loan financing resulted in the subject, who misrepresented an affiliation with the Federal Reserve System, pleading guilty to, among other things, wire fraud, money laundering, and false personation. The subject had collected approximately $2 million from about 15 loan customers, none of whom received a loan or got back the "minimum capital requirement payments" they had made to the subject. To date, the investigation has resulted in the seizure of more than $800,000 and four luxury vehicles (see page 28).

Overview of the OIG's Strategic Plan, 2008 – 2011

Mission

Support the Board in achieving its mission by conducting independent and objective audits, inspections, evaluations, investigations, and other reviews of Board programs and operations. Promote integrity, economy, efficiency, and effectiveness; help prevent and detect fraud, waste, and abuse; and help foster accountability to the Congress and the public.

Vision

The OIG strives to achieve results, assess risk, and protect the public interest through an independent partnership with the Board, built on integrity, excellence, and professionalism.

Values

Independence – Integrity – Excellence
Professionalism – Empowerment – Public Interest

Goal 1

Conduct Work Consistent with the OIG's Statutory and Legislative Requirements

Objectives

- Conduct financial statement and internal control audits.
- Complete material loss reviews of bank failures.
- Conduct annual reviews of the Board's information security program.
- Provide external oversight of the Board's law enforcement activities.
- Review proposed legislation.
- Conduct criminal, civil, and administrative investigations.

Goal 2

Broaden Coverage of Board Mission Areas to Enhance Economy, Efficiency, and Effectiveness; Limit Risk; Detect and Prevent Fraud; and Ensure Compliance

Objectives

- Enhance understanding of the Board's monetary policy function and plan work to add value.
- Address current and emerging challenges to the Supervision and Regulation function.
- Review oversight of Reserve Banks and efforts to foster efficiency and effectiveness of payment systems.
- Assess the integrity, efficiency, and effectiveness of the Board's internal administration and operations.
- Address cross-cutting issues.

Goal 3

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

Objectives

- Strengthen our human resource management.
- Enhance internal and external communication, coordination, and information sharing.
- Continue to improve our business processes.
- Continue to build our technology infrastructure.

Audits & Attestations
Financial/Performance Audits
Attestation Engagements

Inspections & Evaluations
Inspections/Program Evaluations
Best Practice Reviews

Investigations
Criminal/Civil Cases
Fictitious Instruments

Legal Services
Legislative Review
Regulation Review
Policy Review
Program and Project Legal Support

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

Introduction

Consistent with the Inspector General Act of 1978 (IG Act), as amended, 5 U.S.C. app. 3, the mission of the Board's Office of Inspector General (OIG) is to

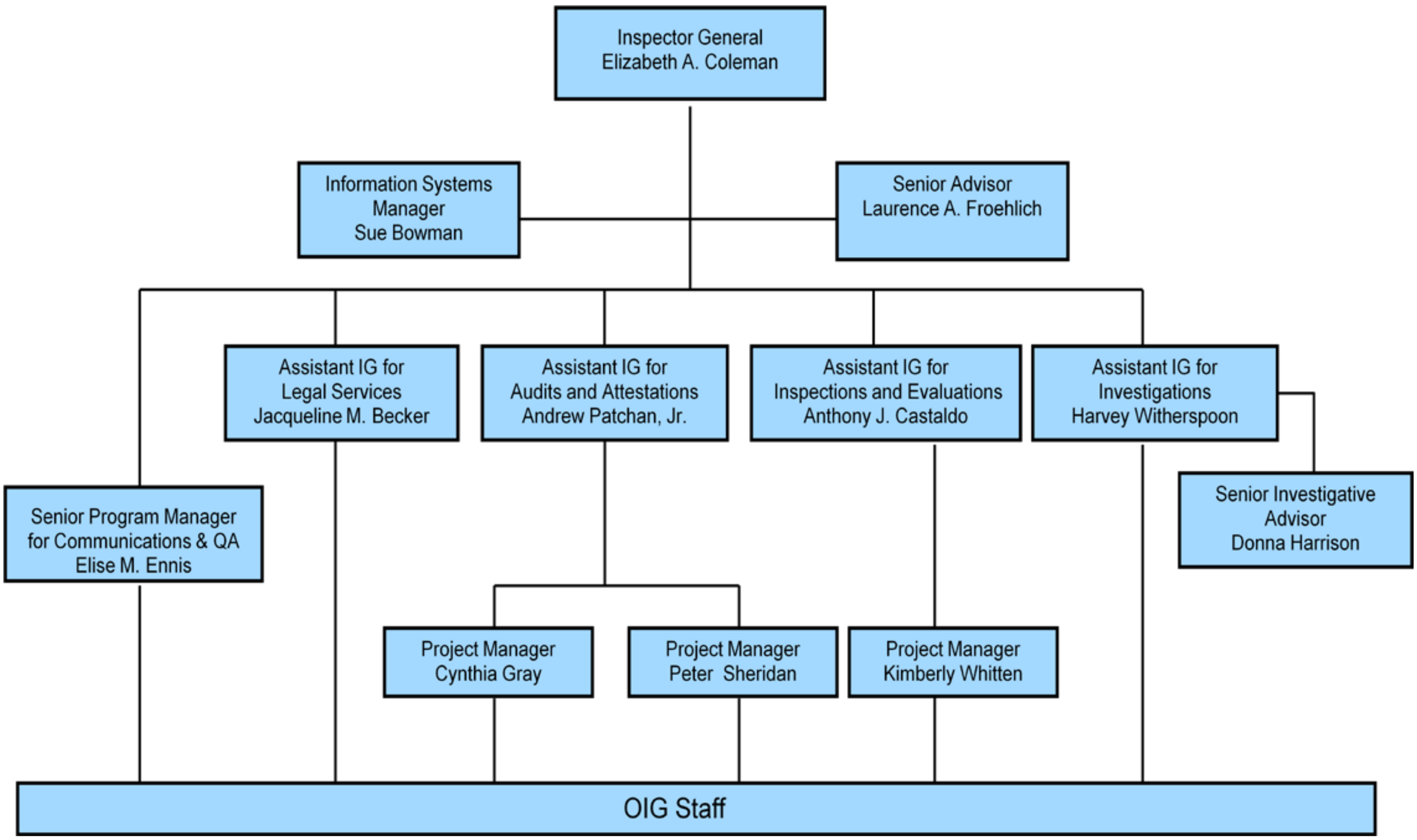
- conduct and supervise independent and objective audits, investigations, and other reviews of the Board's programs and operations;
- promote economy, efficiency, and effectiveness within the Board;
- help prevent and detect fraud, waste, and mismanagement in the Board's programs and operations;
- review existing and proposed legislation and regulations and make recommendations regarding possible improvements to the Board's programs and operations; and
- keep the Chairman and Congress fully and currently informed of problems relating to the administration of the Board's programs and operations.

Congress has also mandated additional responsibilities that influence where the OIG directs its resources. For example, section 38(k) of the Federal Deposit Insurance (FDI) Act, as amended, 12 U.S.C. 1831o(k), requires the Board's OIG to review failed financial institutions supervised by the Board that result in a material loss to the Deposit Insurance Fund (DIF) and to produce, within six months, a report that includes possible suggestions for improvement in the Board's banking supervision practices. In the information technology arena, FISMA, Title III of Public Law No. 107-347, provides a comprehensive framework 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, which includes evaluating the effectiveness of security controls and techniques for selected information systems. 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 and operations. In addition, we oversee the annual financial statement audits of the Board and the FFIEC.

Organization Chart

OFFICE OF INSPECTOR GENERAL

(April 2010)



OIG Staffing

Auditors (including Information Technology)	**40**
Investigators	**9**
Attorneys	**4**
Administrative and Hotline	**4**
Information Systems Analysts	**4**
Total Authorized Positions	**61**

Audits and Attestations

The Audits and Attestations program assesses certain aspects of the economy, efficiency, and effectiveness of the Board's programs and operations. For example, the office of Audits and Attestations conducts audits of (1) the presentation and accuracy of the Board's financial statements and financial performance reports; (2) the effectiveness of processes and internal controls over the Board's programs and activities; (3) the adequacy of controls and security measures governing the Board's financial and management information systems and the safeguarding of the Board's assets and sensitive information; and (4) compliance with applicable laws and regulations related to the Board's 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, including our follow-up activities, and ongoing work that will continue into the next semiannual reporting period.

Audit of the Board's Financial Statements for the Year Ending December 31, 2009, and Audit of the Federal Financial Institutions Examination Council's Financial Statements for the Year Ending December 31, 2009

We contract for an independent public accounting firm to annually audit the financial statements of the Board and the FFIEC. (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. 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, 2009, 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. This year, the auditors expressed an opinion on the effectiveness of the Board's internal controls over financial reporting based on the Public Company Accounting Oversight Board 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, 2009. With regard to the FFIEC's internal controls over financial reporting, the auditors noted no matters that they considered material weaknesses.

As part of obtaining reasonable assurance that the financial statements were free of material misstatement, the auditors also performed tests of the Board's and the FFIEC's compliance with certain provisions of 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 Information Security Program

During this reporting period, we completed our audit of the Board's information security program and practices. The audit was performed pursuant to FISMA, which requires that each agency Inspector General 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. We also followed up on the status of the Board's corrective actions in response to open recommendations from our prior FISMA reports and security control reviews of Board systems.

Overall, we found that the Board's Information Security Officer (ISO) continued to maintain a FISMA-compliant approach to the Board's information security program and that the Board's inventory had remained stable. Based on our prior recommendations, the ISO had allocated additional resources to the Division of Information Technology's (IT's) Security Compliance unit and implemented an improved approach to security assessments that included independent testing. In addition, the ISO continued to issue and update information security policies and guidelines and had started to develop security metrics to measure security performance and compliance. The Board continued to emphasize information security awareness by offering additional automated presentations that highlight potential vulnerabilities and posting awareness reminders throughout Board buildings. To further enhance the Board's information security program, we identified four new recommendations to the Chief Information Officer (CIO): (1) ensure all systems have updated security plans; (2) test select critical controls within the IT general support system annually; (3) independently verify that appropriate corrective action has been implemented before items are removed from the Board's Plan of Action and Milestones (POA&M); and (4) provide mandatory FISMA training to selected staff with FISMA responsibilities. We will continue to review the qualitative aspects of the program as part of future FISMA audits and evaluations.

To evaluate security controls and techniques, we reviewed controls over two Board applications and one application operated by the Federal Reserve Bank of

New York in support of the Board's Division of Monetary Affairs. We also conducted reviews of (1) audit logging controls provided for a number of Board systems and by the IT general support system, and (2) the Board's POA&M program and processes. We reviewed components of the Board's certification and accreditation process, including risk assessments, security plans, and security assessments. We also reviewed information concerning the Board's processes related to areas for which the Office of Management and Budget requests a specific response as part of the agency's annual FISMA reporting, including security awareness and training, system inventory, remedial action monitoring, incident reporting, configuration management, controls over personally identifiable information, and privacy impact assessments. Our reviews of Board applications' information security controls identified areas where controls needed to be strengthened. (Given the sensitivity of the issues in these reviews, we provided the specific results to management in separate restricted reports.)

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 three open recommendations. The third recommendation was to ensure that risk assessments adequately identify, evaluate, and document the risks to an information system based on potential threats, vulnerabilities, and controls. The ISO had developed a supplemental controls questionnaire to assist system owners in determining whether additional controls are needed. However, our detailed review of selected risk assessments showed that system owners could improve in identifying, evaluating, and documenting potential system vulnerabilities, the associated level of risk, and the need for additional controls to address these risks. The ISO has plans to further enhance the risk assessment process, and we kept this recommendation open while we monitor the implementation of these enhancements. In following up on the Board's actions in response to 5 of our prior security control reviews with open recommendations, we determined that sufficient actions were taken to close 57 of the 61 open recommendations from those reviews. We will continue to monitor the Board's actions on open recommendations from our security control reviews.

The Director of IT, in her capacity as CIO for FISMA, generally agreed with our report and stated that additional program enhancements are planned for the next two years that will address most of the key improvement opportunities highlighted in our report.

ONGOING AUDIT WORK

Review of the Federal Reserve's Lending Facilities and Special Programs

During this period, we continued our review of the Federal Reserve's lending facilities and special programs. In response to the financial crisis, the Board initiated a number of lending facilities and special programs to restore liquidity in the economy and preserve financial and economic stability. Many of these lending facilities and special programs have been established pursuant to the Board's authority under section 13(3) of the Federal Reserve Act to authorize Federal Reserve Banks, in unusual and exigent circumstances, to extend credit to individuals, partnerships, and corporations that are unable to obtain adequate credit accommodations from other banking institutions. Through these facilities and programs, the Federal Reserve Banks of New York and Boston have provided loans to depository institutions, bank holding companies, commercial paper issuers, and securities dealers. In addition, the Board has authorized assistance to large financial services companies, such as American International Group and Bear Stearns. The objectives of this review are to obtain information on the various Federal Reserve lending facilities and special programs and to identify risk areas that may warrant further review.

During this reporting period, we completed our initial draft report on the Board's six lending facilities and discussed our review results with appropriate management officials. We anticipate issuing our final report in the next reporting period.

Security Control Review of the Board's Lotus Notes and Lotus Domino Infrastructure

During this period, we issued a draft report of our security control review of the Board's Lotus Notes and Lotus Domino infrastructure to management for review and comment. Lotus Notes and Lotus Domino are used to provide the Board's email, calendar, and database functions. We selected the Lotus Notes and Lotus Domino infrastructure for review because it is a component of the general support system that supports the Board's email and application development infrastructure. Our objectives were to evaluate (1) the effectiveness of selected security controls and techniques for protecting the Lotus Notes and Lotus Domino infrastructure from unauthorized access, modification, or destruction; and (2) compliance with the Board's information security program. We are awaiting a response from the CIO, and we expect to complete this project and issue our final report in the next reporting period.

Security Control Review of the Internet Electronic Submission System

During this period, our office began a security control review of the Internet Electronic Submission (IESub) system developed and maintained by the Federal Reserve Bank of New York's Research and Statistics Group. IESub is a major third-party application on the Board's FISMA application inventory under the Division of Monetary Affairs. It provides an interface for respondents to submit data for regulatory and statistical reports via the internet. We expect to complete this project and issue our final report in the next reporting period.

Audit of the Board's Transportation Subsidy Program

We completed the initial draft report on our audit of the Board's transportation subsidy program. The audit objective is to evaluate whether the program is properly controlled and efficiently administered. Specifically, we are assessing 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. We expect to complete this project and issue our final report in the next reporting period.

FOLLOW-UP WORK

Follow-up on the Audit of Retirement Plan Administration

Our 2003 report on *Audit of Retirement Plan Administration* contained four recommendations to strengthen oversight and administration of the retirement plan. Previous follow-up work enabled us to close three of the recommendations. Our final open recommendation was that the Board, through its representation on the Committee on Plan Administration, modify the methodology for including lump sum payments in pension benefit calculations for members of the Board Benefit Structure. During this reporting period, we reviewed the revised methodology and tested a random sample of four recent retirees under the Board Benefit Structure who had lump sum awards, such as cash awards or variable pay. We did not find any discrepancies in the pension benefit calculations. Based on these results, we believed the actions taken were sufficient to close this last open recommendation.

Follow-up on the Audit of the Board's Payroll Process

During the reporting period, we completed a second follow-up review of our December 2006 report on *Audit of the Board's Payroll Process.* The report contained seven recommendations designed to improve the overall efficiency and accuracy of the Board's payroll processes, and to help ensure compliance with applicable laws and regulations. One of the recommendations was closed as a result of our first follow-up review. During the current review, we determined that sufficient action had been taken to close two recommendations regarding (1) the realignment of the roles and responsibilities between payroll and benefits staff to streamline the new hire and benefits elections processes and (2) the enhancement of controls over the payroll. Benefits staff, rather than payroll staff, now input employees' benefit elections and related information directly into the payroll system, with supervisory review. We also found that, to enhance payroll application controls, payroll staff members are no longer able to enter or update their own payroll information, or to purge or alter payroll audit log tables. In addition, we determined that the Federal Reserve Bank of Atlanta (FRB Atlanta) now provides the Board an electronic verification stating the net pay amount for each pay period, as a summary of the file the Board sent to FRB Atlanta.

We also determined that action had been taken to partially address two other recommendations related to (1) redesigning existing payroll processes to increase efficiency and strengthen controls by reducing or eliminating multiple data transcriptions for overtime and other types of premium pay and (2) developing and disseminating procedures for all payroll-related processes. We determined that the Board's Management Division (MGT) developed a process, Rapid Entry Paysheets, to record and disburse premium pay, and it is in full operation within MGT's Law Enforcement Unit. However, the new process is only being used by one of the four functional areas cited in the report. MGT is planning to perform training and testing for the other functional areas in the near future. Once the Rapid Entry Paysheets process is implemented for the other areas, we will reassess MGT's actions and the closure of this recommendation. MGT also has started to develop, document, and disseminate payroll-related procedures. We determined, though, that these procedures had not been finalized and approved. Once the procedures are finalized and approved, we will reassess MGT's actions and the closure of this recommendation.

Follow-up of the Report on the Control Review of the Board's Currency Expenditures and Assessments

Our 2008 *Report on the Control Review of the Board's Currency Expenditures and Assessments* contained five recommendations to MGT and one recommendation to the Division of Reserve Bank Operations and Payment Systems (RBOPS) to enhance the Board's currency processes and strengthen the program's controls. Specifically, our review identified opportunities to enhance the Board's processes and strengthen controls for paying currency invoices, processing assessments, monitoring vendors, reporting the currency expenses in the Board's financial statements, and restricting currency account codes. We recommended that the Director of MGT (1) ensure that currency invoices received for payment are approved by individuals listed on current Delegation of Authority (DoA) forms; (2) ensure that currency assessment allocations are properly approved; (3) coordinate with the Director of RBOPS to ensure that currency carriers maintain insurance coverage throughout the length of the contract; (4) enhance the Board's financial statements by expanding the description of, and providing supplemental information on, currency expenses and assessments; and (5) implement additional controls in the Board's financial management system to restrict currency account codes to the currency cost center. We also identified opportunities to strengthen controls in the Board's monitoring of the Bureau of Engraving and Printing's currency printing, inventory, and shipping. Accordingly, we recommended that the Director of RBOPS establish agreements between the Board and the Bureau of Engraving and Printing to formalize vault operational reviews and develop a mechanism to independently verify the unissued notes inventory.

Based on our follow-up work, we determined that sufficient action had been taken to close the five recommendations to MGT. Specifically, we found that MGT (1) implemented online approvals that use Oracle's functionality to route invoices directly to the individuals who have been authorized to approve payment, and updated DoA forms to include the proper authorized individuals; (2) automated the assessment allocation process through Oracle, and directly routed assessment transactions for approval within Oracle before further system processing; (3) scheduled meetings with RBOPS staff, at appropriate time intervals, to ensure that insurance certificates are current for each of the five currency carriers; (4) streamlined and refined currency-related language to be more precise in headings and line-item descriptions, and correlated this information with the corresponding notes to the financial statements; and (5) activated system controls that prevent the miscoding of currency accounts to an invalid cost center. We plan to perform follow-up work during the next period regarding our recommendation to RBOPS.

Follow-up of the Security Control Review of the Electronic Security System

During the reporting period, we completed a follow-up review of our June 2009 *Security Control Review of the Electronic Security System* (ESS). ESS is listed as a major application on the Board's FISMA application inventory for MGT. ESS augments the Board's physical security and provides a uniform system for badge issuance, video monitoring, and video recording. The report contained eight recommendations designed to address the protection of ESS from unauthorized access, modification, destruction, or disclosure. Based on our follow-up work, we determined that sufficient action had been taken to close all eight recommendations.

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 material loss 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 non-audit, preventive activities, such as review 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 Inspections* issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

Material Loss Reviews

Section 38(k) of the FDI Act requires that the Inspector General (IG) of the appropriate federal banking agency review the agency's supervision of a failed institution within six months of notification from the Federal Deposit Insurance Corporation (FDIC) IG when the projected loss to the DIF is material. A loss is material when it exceeds the greater of $25 million or 2 percent of the failed institution's total assets. The FDI Act specifically requires that we

- review the institution's supervision, including the agency's implementation of prompt corrective action;
- 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.

During this reporting period, we issued reports on seven failed state member banks that exceeded the materiality threshold.[1] These banks had total assets of approximately $3.1 billion and total losses of approximately $1.3 billion, or approximately 40 percent of total assets.

1. A total of 22 state member banks failed from December 2008 through March 2010. Of those, 10 material loss reviews have been completed by the OIG, 11 material loss reviews are ongoing, and 1 bank failure did not meet the materiality threshold requiring a material loss review. The total estimated loss to the DIF for the 22 banks is approximately $4 billion.

Material Loss Reviews Completed during the Reporting Period

State Member Bank	Location	Federal Reserve District	Asset size (in millions)	Projected Loss (in millions)	Closure Date	FDIC IG Notification Date[1]
Michigan Heritage Bank	Farmington Hills, MI	Chicago	$ 160.9	$ 68.3	04/24/2009	06/22/2009
Community Bank of West Georgia	Villa Rica, GA	Atlanta	$ 200.0	$ 85.1	06/26/2009	07/28/2009
Neighborhood Community Bank	Newnan, GA	Atlanta	$ 210.4	$ 66.6	06/26/2009	07/28/2009
BankFirst	Sioux Falls, SD	Minneapolis	$ 246.1	$ 90.0	07/17/2009	08/19/2009
Community First Bank	Prineville, OR	San Francisco	$ 199.8	$ 44.4	08/07/2009	09/15/2009
Community Bank of Nevada	Las Vegas, NV	San Francisco	$1,500.0	$766.5	08/14/2009	09/15/2009
CapitalSouth Bank	Birmingham, AL	Atlanta	$ 588.5	$146.0	08/21/2009	09/15/2009

1. Date that the Board OIG received notification from the FDIC IG that the projected loss to the DIF would be material. The Board OIG is required to complete its material loss review of such banks within six months of this notification date.

Material Loss Review of Michigan Heritage Bank

Michigan Heritage Bank (Michigan Heritage) was supervised by the Federal Reserve Bank of Chicago (FRB Chicago), under delegated authority from the Board, and by the Michigan Office of Financial and Insurance Regulation (State). The State closed Michigan Heritage in April 2009, and the FDIC was named receiver. On June 22, 2009, the FDIC IG notified us that Michigan Heritage's failure would result in an estimated loss to the DIF of $68.3 million, or about 42.5 percent of the bank's $160.9 million in total assets.

Michigan Heritage failed because its Board of Directors and management did not adequately control the risk associated with a high concentration in the construction and land development (CLD) loan component of the bank's commercial real estate (CRE) portfolio. The bank developed a CLD concentration after changing its lending strategy from equipment lease financing to CRE and commercial and industrial loans. The decline in southeast Michigan's economy affected the bank's local real estate market, and the CLD loan portfolio experienced significant losses. In early 2007, the Board of Directors hired new management to strengthen risk management and credit administration, but efforts to improve the deteriorating CLD loan portfolio were unsuccessful. As losses mounted, Michigan Heritage's earnings were eliminated, and capital was severely depleted. The bank was closed on April 24, 2009, after it failed to meet a regulatory deadline to either increase its capital, be acquired by another institution, or take other necessary measures to make the bank adequately capitalized.

With respect to supervision, we believe that the circumstances examiners observed in the late 2007 to early 2008 timeframe, including (1) deteriorating economic conditions, (2) a more than four-fold increase in classified assets, and (3) concerns regarding the bank's future prospects, provided an opportunity for a stronger supervisory response, such as an appropriate enforcement action requiring management to maintain capital commensurate with an increasing risk profile.

The financial impact of the deteriorating local economy and real estate market was evident during the examination that FRB Chicago began in October 2007. Auto industry lay-offs were increasing, causing what examiners referred to as economic stagnation, particularly in the real estate market. Michigan Heritage's concentration in CLD loans made the bank vulnerable to a downturn in the real estate market. Significant asset quality deterioration was also evident, and classified assets more than quadrupled from $2.7 million to $12.5 million in a 12-month period. Examiners warned that protracted weaknesses in the real estate market could have a significant impact on potential portfolio losses, and they noted that the prospects for improving Michigan Heritage's financial condition and performance were "mixed" because of the Michigan economy and the bank's location in the northern suburbs of Detroit. While we believe that the circumstances FRB Chicago observed during the late 2007 to early 2008 time period provided an opportunity for a more forceful supervisory response, it was not possible to determine whether any such action would have affected Michigan Heritage's subsequent decline or the cost to the DIF.

Michigan Heritage's failure offered a valuable lesson learned. The bank changed its business strategy from equipment lease financing to CRE and commercial and industrial loans; in doing so, it developed a concentration in CLD loans. Many of the problem loans that eventually led to Michigan Heritage's failure were underwritten during its lending strategy transition to CLD loans when the bank did not have the appropriate leadership, personnel, and infrastructure to support the change. Accordingly, we believe that a bank making a significant change to its business strategy warrants heightened supervisory attention, including an in-depth assessment of management's experience and capability to manage the risks associated with any new lines of business.

The Director of the Division of Banking Supervision and Regulation agreed with our conclusion and concurred with the lesson learned.

Material Loss Review of Community Bank of West Georgia

Community Bank of West Georgia (West Georgia) was supervised by FRB Atlanta, under delegated authority from the Board, and by the Georgia Department of Banking and Finance (State). West Georgia was a de novo bank, which Board supervisory guidance defines as a state member bank that has been in operation for five years or less. The State closed West Georgia on June 26, 2009, and the FDIC was named receiver. On July 28, 2009, the FDIC IG notified us that West Georgia's failure would result in an estimated loss to the DIF of $85.1 million, or about 42.6 percent of the bank's $200 million in total assets.

West Georgia failed because its Board of Directors and management did not properly manage and control the risk associated with the bank's highly concentrated acquisition, development, and construction (ADC) loan portfolio. West Georgia expanded its ADC lending when the metropolitan Atlanta area was experiencing rapid growth. However, a declining real estate market, coupled with credit administration and loan underwriting weaknesses, led to deteriorating asset quality and significant losses, particularly in the ADC portfolio. Mounting losses eliminated earnings and depleted capital, which ultimately led to the State closing West Georgia.

Our analysis of FRB Atlanta's supervision of West Georgia indicated that emerging problems that became apparent in early 2007 warranted a more forceful supervisory response compelling West Georgia's management to (1) address credit administration and loan underwriting deficiencies and (2) maintain capital commensurate with the bank's high concentration in speculative ADC loans. By early 2007, it was apparent that West Georgia's credit risk was high due to (1) a large concentration in ADC loans, especially speculative construction loans for homes that were not pre-sold; and (2) weaknesses in credit administration and loan underwriting. Although West Georgia received a CAMELS composite 2 (satisfactory) rating, examiners cited credit management problems, including insufficient information contained in memoranda supporting ADC loans and a lack of independent appraisal reviews.[2] In addition, examiners noted a declining trend in capital and expressed concerns about West Georgia's capital in light of the bank's high ADC concentration. Examiners specifically cautioned that West Georgia's capital level might not be sufficient to absorb unexpected losses arising from the bank's ADC concentration.

The case for a stronger supervisory response in early 2007 was supported by the results of an FRB Atlanta November 2007 visitation, when examiners noted that the bank's credit risk analysis and monitoring of commercial real estate loans still needed further improvement and that there were continued weaknesses in credit administration. In addition, Federal Reserve guidance on de novo bank supervision states, "Given the rapid deterioration experienced by some de novo banks, a timely supervisory response to address problem areas is particularly important." The guidance also advises that prompt supervisory action should be taken when weaknesses are first detected.

2. 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 and 5 having the greatest concern.

West Georgia's failure pointed to a valuable lesson learned because it illustrated that de novo banks with a growth strategy that results in a concentration of ADC loans can be highly vulnerable to changes in the real estate market. Accordingly, de novo banks with ADC concentrations require immediate and forceful supervisory action compelling management to (1) correct credit administration and loan underwriting deficiencies as soon as they begin to appear, and (2) maintain capital levels that are commensurate with emerging risks.

During the course of our review, we found that discrete Board guidance pertaining to de novo bank examinations was contained in two separate documents that were not cross-referenced, which could result in the guidance being overlooked or misinterpreted. Our report recommended that the supervisory guidance related to de novo banks be clarified.

The Director of the Division of Banking Supervision and Regulation concurred with our conclusions, lesson learned, and recommendation. The Director said that he planned to implement our recommendation by making certain revisions to supervisory guidance.

Material Loss Review of Neighborhood Community Bank

Neighborhood Community Bank (Neighborhood) was supervised by FRB Atlanta, under delegated authority from the Board, and by the Georgia Department of Banking and Finance (State). The State closed Neighborhood on June 26, 2009, and the FDIC was named receiver. On July 28, 2009, the FDIC IG notified us that Neighborhood's failure would result in an estimated loss to the DIF of $66.6 million, or about 31.7 percent of the bank's $210.4 million in total assets.

Neighborhood failed because its Board of Directors and management did not properly manage the risks associated with the bank's concentration in ADC loans tied to the residential real estate market. Neighborhood expanded its ADC loan portfolio when the areas served by the bank experienced rapid growth. A declining residential real estate market, coupled with management's failure to recognize and act upon weakening market conditions, led to deteriorating asset quality and significant losses, particularly in the ADC loan portfolio. Mounting losses eliminated earnings and depleted capital, which ultimately caused the State to close Neighborhood.

In our opinion, the conditions examiners observed during a 2007 examination provided FRB Atlanta with an opportunity to be more aggressive in addressing Neighborhood's high ADC loan concentration as part of its October 2007 informal enforcement action (Board Resolution). FRB Atlanta accelerated the start of its 2007 examination by three months because ongoing surveillance revealed an increased inventory of completed but unsold homes in the bank's market area. Examiners downgraded Neighborhood to a CAMELS composite 3 (fair) rating and noted that staff turnover at Neighborhood during the prior 6 to 12 months had a negative effect on the bank's ability to manage its loan portfolio.

The 2007 examination report stressed the importance of effective Board of Directors and senior management oversight given the lending staff's inexperience and the "uncertain outlook for residential real estate." Examiners noted an increase in classified assets and commented that most of the loans downgraded during the examination were tied to residential land development and construction. Bank management was criticized for being slow to recognize loan deterioration. In addition, examiners stated that the signs of a potential housing oversupply were evident 12 to 15 months earlier. Separately, examiners noted that management had continued to originate new ADC loans after other local banks had begun to reduce their CRE exposure. Accordingly, we believe that the conditions observed during the 2007 examination that led to a Board Resolution also warranted compelling Neighborhood to reduce its ADC loan concentration. However, in light of the subsequent rapid deterioration in the local real estate market, it was not possible to determine the degree to which any such action would have affected the bank's subsequent decline or the failure's cost to the DIF.

We believe that Neighborhood's failure offered a lesson learned. In our opinion, Neighborhood's failure demonstrated that an aggressive and immediate supervisory response—including an enforcement action compelling a bank to reduce its concentration in ADC loans—may be warranted when a financial institution experiences significant staff turnover and management is slow to recognize or act upon early signs of loan portfolio deterioration and weakening market conditions.

The Director of the Division of Banking Supervision and Regulation agreed with our conclusion and lesson learned.

Material Loss Review of BankFirst

BankFirst was supervised by the Federal Reserve Bank of Minneapolis (FRB Minneapolis), under delegated authority from the Board, and by the South Dakota Division of Banking (State). The State closed BankFirst on July 17, 2009, and named the FDIC receiver. On August 19, 2009, the FDIC IG notified us that BankFirst's failure would result in an estimated loss to the DIF of $90 million, or 36.6 percent of the bank's $246.1 million in total assets.

BankFirst failed because its Board of Directors and management did not establish a corporate governance and oversight framework to control the risks associated with its aggressive loan growth and high concentration in CRE loans. The lack of effective credit risk management controls resulted in a large volume of poorly underwritten CRE loans that were originated within an 18-month period.

BankFirst had pervasive internal control deficiencies, and bank management's inability to identify and address loan portfolio weaknesses led to asset quality deterioration and significant losses. Mounting losses eliminated earnings and depleted capital, which ultimately caused the State to close BankFirst.

Our analysis of BankFirst's supervision revealed that FRB Minneapolis did not devote sufficient supervisory attention to verifying that BankFirst's Board of Directors and management implemented a credit risk management framework to sufficiently control the bank's rapid growth in a new activity—CRE lending. Supervisory guidance related to assessing Board of Directors and management oversight of new business activities stated that examiners should confirm that bank management has implemented the infrastructure and internal controls necessary to manage the risks associated with new business activities. A target examination report issued in March 2007 marked the point when FRB Minneapolis began to identify the full extent of the credit risk management weaknesses that contributed to BankFirst's eventual failure. Many of the findings and conclusions cited during the 2007 target examination contradicted the results from five prior examinations. We believe that FRB Minneapolis should have focused greater attention on credit risk controls during examinations that immediately followed the bank's transition to commercial lending.

Specifically, we believe that full scope examinations conducted in 2005 and 2006 presented opportunities for FRB Minneapolis to take more forceful supervisory action. During the May 2005 examination, FRB Minneapolis noted that BankFirst's updated annual projection for loan portfolio growth would almost triple the forecasted amount cited in management's business plan. In our opinion, the magnitude of this projected increase provided FRB Minneapolis with an opportunity to take immediate supervisory action to restrain further loan portfolio growth. During the July 2006 full scope examination, examiners did request that BankFirst curtail further loan growth to allow the loan portfolio to "season," so examiners could assess the risks associated with the bank's strategy. However, examiners did not conduct sufficient testing to confirm that the bank's CRE lending controls were adequate to support the bank's rapid loan growth.

In our opinion, the 2006 full scope examination represented a missed opportunity at a critical juncture to (1) uncover the full extent of BankFirst's credit risk management weaknesses, including a compensation program that rewarded making loans but lacked incentives to ensure that the loans were safe and sound, and (2) compel management to address identified deficiencies. We believe that an earlier supervisory action to have BankFirst refrain from making additional loans may have reduced the loss to the DIF.

Recurring corporate governance weaknesses throughout the timeframe preceding the 2007 target examination also presented an opportunity for FRB Minneapolis to take more forceful supervisory action. During examinations conducted between May 2005 and October 2006, examiners noted a variety of corporate governance deficiencies, including (1) persistent strategic planning issues; (2) a corporate organizational structure that created divided loyalty between BankFirst and its holding company; (3) the substantial sharing of employees between affiliated entities; and (4) the need for a Chief Risk Officer, or other advocate, with sufficient power to manage financial and legal risks resulting from BankFirst's transactions with affiliated entities. We believe that the corporate governance deficiencies identified by examiners during these multiple examinations represented red flags that, at a minimum, warranted an earlier and more forceful supervisory response, including an appropriate enforcement action.

FRB Minneapolis did not conclude that a formal enforcement action was necessary until the 2007 target examination. Upon reaching that conclusion, issuing the formal enforcement action took five months. We believe that the time taken to issue the enforcement action was unduly prolonged, but likely did not have a material impact. The critical juncture to uncover and forcefully address BankFirst's loan growth and pervasive control deficiencies was in 2005 and 2006.

In our view, BankFirst's failure offered important lessons learned. First, heightened supervisory attention is vital when a bank implements a new business strategy featuring growth in high-risk lending outside of the institution's traditional market area. Second, BankFirst's failure demonstrated the importance of confirming that new business activities operate within an effective internal control infrastructure. The failure also highlighted the need for immediate, aggressive, and forceful supervisory action when (1) management deviates from business plan projections or (2) examiners detect corporate governance deficiencies that blur the barriers between affiliated entities.

The Director of the Division of Banking Supervision and Regulation concurred with our conclusions and lessons learned and noted the critical importance of supervisors detecting and addressing serious issues sufficiently early so that risks to the bank's viability can be controlled.

Material Loss Review of Community First Bank

Community First Bank (Community First) was supervised by the Federal Reserve Bank of San Francisco (FRB San Francisco), under delegated authority from the Board, and by the Oregon Division of Finance and Corporate Securities (State). The bank opened in 1980 and had as many as eight branches in central Oregon, including a lending office in Bend, Oregon. The State closed Community First on August 7, 2009, and the FDIC was named receiver. On September 15, 2009, the FDIC IG notified us that Community First's failure would result in an estimated loss to the DIF of $44.4 million, or 22 percent of the bank's total assets of $199.8 million.

Community First failed because its Board of Directors and management did not adequately control the risks associated with a high concentration in the CLD loan component of the bank's CRE portfolio. The bank developed a high CLD concentration when the Bend, Oregon, real estate market was experiencing rapid growth and extraordinarily high price appreciation. A swift decline in the local real estate market, coupled with management's inadequate response to weakening market conditions, led to deteriorating asset quality and significant losses, particularly in the CLD portfolio. Mounting loan losses eliminated the bank's earnings, depleted capital, and eventually led to the bank's failure.

With respect to supervision, we believe that the magnitude of financial and market declines that FRB San Francisco examiners encountered leading up to and during the summer of 2008, when they conducted an off-site assessment and downgraded Community First's CAMELS composite rating to 3 (fair), offered an early opportunity to provide written notice urging the Board of Directors and management to begin raising capital to a level commensurate with the bank's deteriorating financial condition. Specifically, examiners noted the significant deterioration in the local real estate market and Community First's financial condition. Declining credit quality severely weakened earnings, and the bank reported a year-to-date loss in the second quarter of 2008. Examiners also reported that Community First's capital was considerably lower than its peer group and was not commensurate with the bank's risk profile. Finally, examiners found that bank management was not complying with its policy for obtaining appraisals when "obvious and material changes in market conditions are present or when real estate loans become past due, impaired, or otherwise internally classified." Examiners indicated that current appraisals were necessary to assess the soundness of loans that fit the criteria outlined in the bank's policy. However, in light of the rapid deterioration of the local real estate market, it was not possible to determine if an earlier or alternative supervisory action would have affected Community First's subsequent decline or the failure's cost to the DIF.

In our opinion, the failure of Community First offered a valuable lesson learned: rapid growth of the CLD portfolio in real estate markets experiencing extraordinarily high price appreciation is an extremely risky strategy that significantly increases a bank's vulnerability to any subsequent market downturn and requires (1) heightened supervisory attention, and (2) immediate supervisory action when signs of market deterioration or credit administration weaknesses first appear.

The Director of the Division of Banking Supervision and Regulation agreed with our conclusions and lesson learned.

Material Loss Review of Community Bank of Nevada

Community Bank of Nevada (CBON) was supervised by FRB San Francisco, under delegated authority from the Board, and by the Nevada Financial Institutions Division (State). The State closed CBON on August 14, 2009, and the FDIC was named receiver. On September 15, 2009, the FDIC IG notified us that CBON's failure would result in an estimated loss to the DIF of $766.5 million, or 51.1 percent of the bank's $1.5 billion in total assets.

CBON failed because its Board of Directors and management did not adequately control the risks resulting from its strategy of aggressive growth concentrated in CLD loans within the local real estate market. A precipitous and unprecedented deterioration of economic conditions within Las Vegas affected the local real estate market, and the bank's CLD portfolio experienced significant losses. Bank management was optimistic that conditions would improve and, therefore, failed to identify and quantify the magnitude of risk within its heavily concentrated portfolio. Mounting losses eliminated earnings and depleted capital, which ultimately led the State to close CBON.

With respect to supervision, we believe that the breadth and significance of issues that examiners encountered leading up to and during the summer of 2008—when an off-site assessment downgraded CBON's CAMELS composite rating to a 3 (fair)—offered an early opportunity for an immediate supervisory response, such as an appropriate enforcement action compelling the bank's Board of Directors and management to mitigate the increasing risks associated with the declining real estate market and previously identified weaknesses in asset quality, earnings, credit risk management, and liquidity.

An examination report issued in May 2008 noted that CBON's overall risk profile was increasing significantly due to what examiners referred to as "rapidly changing market dynamics." In addition, the May 2008 examination (1) identified gaps in CBON's risk management processes for loan review, appraisals, credit underwriting and administrative practices, and liquidity; and (2) noted that the Board of Directors and management should be proactive to address the bank's escalating risks. During a July 2008 meeting with CBON's Board of Directors, examiners noted that the bank's CAMELS composite 2 (satisfactory) rating was supported by the bank's financial results, but that it did not reflect the high level of risk inherent in management's high-concentration strategy. At that meeting, examiners cited the potential for rapid and severe negative shifts in the bank's condition due to its concentration in construction lending and the reliance on wholesale funding.

An August 2008 supervisory assessment revealed that the risks and potential for negative changes to the bank's financial condition previously cited by examiners were actually occurring. Asset quality was downgraded to less than satisfactory due to a substantial increase in classified loans and nonperforming assets.

Earnings dropped significantly, and examiners noted that, at current levels, earnings might not fully support operations and be sufficient to replenish capital and the allowance for loan and lease losses given the institution's overall risk profile.

While we believe that an early and forceful supervisory response was warranted as a result of the issues encountered leading up to and during the August 2008 supervisory assessment, in light of the subsequent steep and rapid deterioration of the local real estate market, it was not possible to determine if an earlier enforcement action would have affected CBON's subsequent decline or the failure's cost to the DIF.

CBON's failure offered valuable lessons learned because it illustrated that a bank with a strategy that features a high concentration of CLD loans is extremely vulnerable to changes in the real estate market it serves. In our opinion, CBON's failure also demonstrated that extremely high CLD concentrations can surpass a bank's capability to withstand a sharply deteriorating market and, therefore, pose a substantial risk to the safety and soundness of a financial institution.

The Director of the Division of Banking Supervision and Regulation agreed with our conclusion and concurred with the lessons learned.

Material Loss Review of CapitalSouth Bank

CapitalSouth Bank (Capital South) was supervised by FRB Atlanta, under delegated authority from the Board, and by the Alabama Department of Banking and Finance (State). The State closed CapitalSouth on August 21, 2009, and named the FDIC as receiver. On September 15, 2009, the FDIC IG notified us that CapitalSouth's failure would result in an estimated loss to the DIF of $146 million, or 24.8 percent of the bank's $588.5 million in total assets.

CapitalSouth, headquartered in Birmingham, Alabama, became a state member bank in October 1978. From its inception until 2003, the bank's primary business strategy involved lending to small- and medium-sized businesses in metropolitan areas. In 2003, CapitalSouth's strategy evolved to include expanding through (1) internal growth of the bank's traditional business lending activities, including CRE lending; and (2) targeted acquisitions. In September 2007, CapitalSouth acquired Monticello Bank, a federal savings association, and its mortgage subsidiary, Mortgage Lion, Inc.

CapitalSouth failed because its Board of Directors and management did not implement a credit risk management infrastructure commensurate with its aggressive expansion strategy and high concentration of CRE loans, including ADC loans. The bank pursued an aggressive expansion strategy even though its modest earnings and capital position did not provide the buffer necessary to withstand significant asset quality deterioration. CapitalSouth's acquisition of Monticello Bank compounded CapitalSouth's preexisting credit risk management weaknesses. A declining real estate market revealed the full extent of the combined entity's credit administration and loan underwriting deficiencies and resulted in asset quality deterioration and significant losses. Mounting losses eliminated earnings, depleted capital, and ultimately caused the State to close CapitalSouth.

Our analysis of FRB Atlanta's supervision of CapitalSouth indicated that examiners identified key weaknesses in 2005, but missed subsequent opportunities to take more forceful supervisory action. In a 2005 examination report, FRB Atlanta highlighted a fundamental issue with the bank's growth strategy, observing that the bank had no margin for error and "cannot afford to have any substantial problem assets or loan losses given its robust growth objectives and modest earnings." We believe that FRB Atlanta should have stressed to CapitalSouth the need for solid earnings performance before the bank pursued its risky growth strategy. In our opinion, examiners should have suggested that CapitalSouth postpone its growth objectives until it enhanced its modest earnings and credit risk management practices. The eventual loss to the DIF may have been reduced if examiners took a more aggressive supervisory approach at this juncture.

FRB Atlanta, with the concurrence of Board applications staff, approved CapitalSouth's acquisition of Monticello Bank, without conducting a pre-merger examination or documenting a waiver as specified in the Board's Supervision and Regulation (SR) Letter 98-28. This guidance established the criteria for conducting safety and soundness examinations of depository institutions seeking to become, or merge into, a state member bank. It outlined an "eligible bank" test and the factors to be evaluated when determining whether pre-merger examinations should be conducted, including whether the institution being acquired has a composite rating of 1 or 2 and has no major unresolved supervisory issues. At the time of the application, Monticello Bank had a composite 3 rating and was under a Cease and Desist Order issued by its primary regulator, the Office of Thrift Supervision, because of its credit risk management weaknesses. In fact, post-acquisition examinations highlighted numerous high-risk elements in Mortgage Lion's loan portfolio, including sub-prime and "no documentation" lending activities. In our opinion, a full scope pre-merger examination was warranted and may have led FRB Atlanta to recommend that the Board deny the acquisition application. If CapitalSouth had not acquired Monticello Bank, the loss to the DIF may have been reduced.

According to an FRB Atlanta official, the Reserve Bank's noncompliance with SR Letter 98-28 was attributable to the structure of the SR letter and confusion concerning how to apply the eligible bank test. Our report included a recommendation that the guidance be clarified.

We believe that CapitalSouth's failure offered lessons learned that can be applied in supervising banks with similar characteristics and circumstances. Specifically, CapitalSouth's failure illustrated that banks with a pattern of modest earnings, an aggressive growth strategy, and a high CRE concentration require heightened supervisory attention. In these situations, examiners should ensure that the bank has (1) sufficient earnings and capital to support an aggressive expansion strategy, and (2) credit risk management controls that are sufficiently robust to fully support the bank's growth. In addition, CapitalSouth's failure demonstrated that pre-merger examinations need to be conducted consistent with the guidance in SR Letter 98-28.

The Director of the Division of Banking Supervision and Regulation concurred with our conclusions, lessons learned, and recommendation. The Director said that he planned to implement our recommendation to clarify supervisory guidance that sets forth the conditions under which examinations should be conducted when depository institutions seek to become, or merge into, state member banks.

ONGOING INSPECTION AND EVALUATION WORK

As shown in the chart below, we are currently conducting 11 material loss reviews of failed state member banks. The 11 banks had total assets of approximately $9.5 billion and total losses of approximately $2.3 billion, or approximately 25 percent of total assets.

State Member Banks that Failed during the Reporting Period

State Member Bank	Location	Federal Reserve District	Asset size (in millions)	Projected Loss (in millions)	Closure Date	FDIC IG Notification Date[1]
Irwin Union Bank and Trust	Columbus, IN	Chicago	$2,700.0	$552.4	09/18/2009	10/29/2009
Warren Bank	Warren, MI	Chicago	$ 530.9	$276.3	10/02/2009	10/29/2009
San Joaquin Bank	Bakersfield, CA	San Francisco	$ 771.8	$ 90.4	10/16/2009	11/12/2009
Bank of Elmwood	Racine, WI	Chicago	$ 339.1	$ 90.6	10/23/2009	11/12/2009
Orion Bank	Naples, FL	Atlanta	$2,700.0	$593.8	11/13/2009	12/14/2009
SolutionsBank	Overland Park, KS	Kansas City	$ 510.1	$119.0	12/11/2009	01/04/2010
Barnes Banking Company	Kaysville, UT	San Francisco	$ 745.5	$266.3	01/15/2010	03/03/2010
Marco Community Bank	Marco Island, FL	Atlanta	$ 126.9	$ 36.9	02/19/2010	03/18/2010
Bank of Illinois	Normal, IL	Chicago	$ 205.3	$ 53.7	03/05/2010	04/05/2010
Sun American Bank	Boca Raton, FL	Atlanta	$ 543.6	$103.0	03/05/2010	04/05/2010
Old Southern Bank	Orlando, FL	Atlanta	$ 351.0	$ 90.5	03/12/2010	04/05/2010

1. Date that the Board OIG received notification from the FDIC IG that the projected loss to the DIF would be material. The Board OIG is required to complete its material loss review of such banks within six months of this notification date.

Below are brief summaries of these reviews.

1. Material Loss Review of Irwin Union Bank and Trust

On September 18, 2009, Irwin Union Bank and Trust, Columbus, Indiana, was closed by the Indiana Department of Financial Institutions. At the time of closure, Irwin Union Bank and Trust had total assets of $2.7 billion. On October 29, 2009, the FDIC IG notified our office that the FDIC had estimated a $552.4 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

2. Material Loss Review of Warren Bank

On October 2, 2009, Warren Bank, Warren, Michigan, was closed by the Michigan Office of Financial and Insurance Regulation. At the time of closure, Warren Bank had total assets of $530.9 million. On October 29, 2009, the FDIC IG notified our office that the FDIC had estimated a $276.3 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

3. Material Loss Review of San Joaquin Bank

On October 16, 2009, San Joaquin Bank, Bakersfield, California, was closed by the California Department of Financial Institutions. At the time of closure, San Joaquin Bank had total assets of $771.8 million. On November 12, 2009, the FDIC IG notified our office that the FDIC had estimated a $90.4 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

4. Material Loss Review of Bank of Elmwood

On October 23, 2009, Bank of Elmwood, Racine, Wisconsin, was closed by the Wisconsin Department of Financial Institutions. At the time of closure, Bank of Elmwood had total assets of $339.1 million. On November 12, 2009, the FDIC IG notified our office that the FDIC had estimated a $90.6 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

5. Material Loss Review of Orion Bank

On November 13, 2009, Orion Bank, Naples, Florida, was closed by the Florida Office of Financial Regulation. At the time of closure, Orion Bank had total assets of $2.7 billion. On December 14, 2009, the FDIC IG notified our office that the FDIC had estimated a $593.8 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

6. Material Loss Review of SolutionsBank

On December 11, 2009, SolutionsBank, Overland Park, Kansas, was closed by the Office of the State Bank Commissioner of Kansas. At the time of closure, SolutionsBank had total assets of $510.1 million. On January 4, 2010, the FDIC IG notified our office that the FDIC had estimated a $119.0 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

7. Material Loss Review of Barnes Banking Company

On January 15, 2010, Barnes Banking Company, Kaysville, Utah, was closed by the Utah Department of Financial Institutions. At the time of closure, Barnes Banking Company had $745.5 million in total assets. On March 3, 2010, the FDIC IG notified our office that the FDIC had estimated a $266.3 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

8. Material Loss Review of Marco Community Bank

On February 19, 2010, Marco Community Bank, Marco Island, Florida, was closed by the Florida Office of Financial Regulation. At the time of closure, Marco Community Bank had approximately $126.9 million in total assets. On March 18, 2010, the FDIC IG notified our office that the FDIC had estimated a $36.9 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

9. Material Loss Review of Bank of Illinois

On March 5, 2010, Bank of Illinois, Normal, Illinois, was closed by the Illinois Department of Financial and Professional Regulation. At the time of closure, Bank of Illinois had approximately $205.3 million in total assets. On April 5, 2010, the FDIC IG notified our office that the FDIC had estimated a $53.7 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

10. Material Loss Review of Sun American Bank

On March 5, 2010, Sun American Bank, Boca Raton, Florida, was closed by the Florida Office of Financial Regulation. At the time of closure, Sun American Bank had approximately $543.6 million in total assets. On April 5, 2010, the FDIC IG notified our office that the FDIC had estimated a $103.0 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

11. Material Loss Review of Old Southern Bank

On March 12, 2010, Old Southern Bank, Orlando, Florida, was closed by the Florida Office of Financial Regulation. At the time of closure, Old Southern Bank had approximately $351.0 million in total assets. On April 5, 2010, the FDIC IG notified our office that the FDIC had estimated a $90.5 million loss to the DIF, which exceeded the statutory threshold requiring us to conduct a material loss review.

Investigations

The Investigations program conducts criminal, civil, and administrative investigations in support of the Board's programs and operations. To effectively carry out their mission, OIG special agents must possess a thorough knowledge of current federal criminal statutes and the rules of criminal procedure, as well as other rules, regulations, and court decisions governing the conduct of criminal, civil, and administrative investigations. Additionally, OIG special agents have authority to exercise specific law enforcement powers through a blanket deputation agreement with the U.S. Marshals Service of the Department of Justice. OIG investigations are conducted in compliance with the CIGIE's *Quality Standards for Investigations*.

INVESTIGATIVE ACTIVITIES

Our criminal investigative activities involve leading or participating in a number of multi-agency investigations. OIG special agents conduct investigations of alleged criminal or otherwise prohibited activities that have an actual or potential significant impact on the Board and its programs and operations. These investigations involve alleged bank fraud, terrorist financing, money laundering, and mortgage fraud. In addition, OIG special agents continue to address allegations of criminal wrongdoing on the part of Board employees, as well as violations of the Board's standards of conduct. During this reporting period, we opened 15 new cases and closed 1 case. 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 are highlights of our significant investigative activity over the last six months.

Board Employee Indicted for Selling Board Cell Phones to Friends

During this reporting period, a Board employee was charged with stealing and selling government cell phones to friends, who then incurred tens of thousands of dollars in airtime charges. In August 2007, after being informed that approximately 22 cellular telephones were missing and believed stolen, the OIG initiated an investigation into the alleged theft. The investigation determined that at least 26 cell phones were missing and that the Board had incurred associated charges in excess of $215,000 that were primarily due to international calls to Jamaica, Brazil, Costa Rica, and the United Kingdom.

The alleged thefts occurred between November 2006 and September 2007, while the Board employee, through her position, had access to the cell phones. The employee is accused of selling at least 10 cell phones, some for as much as $250 each. Other phones were allegedly traded for services, such as discounts for hairstyling services.

It is also alleged that in August 2008, during the OIG investigation, the employee tried to "corruptly persuade" an individual who possessed some of the cell phones to falsely testify before a grand jury that the individual received the cell phones from a former Board employee.

On October 14, 2009, 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 is currently awaiting trial, which is scheduled for September 2010.

California Woman Entered Guilty Plea for False Personation of a Federal Reserve Official in an Advance Fee Scheme

In late 2008, the OIG initiated an investigation into an individual's alleged "advance fee scheme" to defraud individuals and entities seeking loan financing by misrepresenting an affiliation with the Federal Reserve System. The subject was arrested on wire fraud charges that alleged she collected hundreds of thousands of dollars in "advance fees" from victims who were promised low-interest, multi-million dollar loans from the "Federal Reserve Bank." This investigation was conducted jointly with the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement, the U.S. Postal Inspection Service, and the Los Angeles Police Department.

The subject, who held herself out as an employee of the "Federal Reserve Bank," fraudulently promised more than a dozen victims 30-year business loans at a fixed rate of 2.3 percent. The subject told a man she hired as her loan consultant and approximately 15 identified victims that she could secure the loans without any standard documentation because she worked directly with the head underwriter of the Federal Reserve Bank. As part of the loan program, the subject required her customers to make up-front "minimum capital requirement" payments, which were generally about 5 percent of the loan amount.

The subject collected approximately $2 million from about 15 loan customers, none of whom received a loan or saw the return of their minimum capital requirement payment. In the case of one loan customer, the subject said the delay in the funding of a $20 million loan was being caused by the failure of IndyMac Bank. The bulk of a $600,000 minimum capital requirement payment was transferred to an account that the subject controlled, and in the course of just one month, tens of thousands of dollars were withdrawn as cash or used to pay various retailers.

On January 11, 2010, the subject pleaded guilty to a criminal information charging wire fraud, money laundering, false personation of an employee of the Federal Reserve, and causing an act to be done. To date, the investigation has resulted in cash, check, and bank account seizures totaling more than $800,000. Four luxury vehicles were also seized.

The subject is scheduled to be sentenced in April 2010 for two counts of wire fraud, one count of money laundering, and one count of personating an employee of the Federal Reserve.

Board Law Enforcement Officer Resigned

During the current reporting period, the OIG completed an employee misconduct investigation of a now former Board Law Enforcement Officer. The OIG initiated the investigation in response to a referral from the Board's Law Enforcement Unit that a Board Law Enforcement Officer allegedly committed domestic assault, potentially resulting in a violation of the Lautenberg Amendment. The Lautenberg Amendment prohibits individuals, including police officers, from possessing firearms if they have ever been convicted of a misdemeanor crime of domestic violence.[3] The criminal investigation was conducted by Fairfax County, Virginia, law enforcement authorities and was coordinated with the OIG. The Law Enforcement Officer pled nolo contendere (no contest) to charges related to striking his girlfriend during a domestic dispute in July 2009. The Officer was found guilty of misdemeanor domestic assault on September 8, 2009. On September 15, 2009, the OIG issued a letter report to Board management for appropriate action. The Officer subsequently resigned.

South Carolina Couple Indicted on Money Laundering Charges

During this reporting period, a South Carolina couple was indicted on charges of money laundering and trafficking in counterfeit goods. The OIG initiated its investigation based on a request for assistance from the U.S. Postal Inspection Service in Charleston, South Carolina, concerning alleged money laundering and structured deposits by two subjects. 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 Federal Reserve 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.

On December 15, 2009, a federal grand jury indicted the subjects on charges of money laundering and trafficking in counterfeit goods. The indictment charges that the subjects knowingly conducted financial transactions affecting interstate and foreign commerce with the structured purchase of 636 Postal Money Orders valued at $579,865, which involved 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 alleged money laundering violations.

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3. The Lautenberg Amendment refers to section 658 of the Omnibus Consolidated Appropriations Act, 1997.

Summary Statistics on Investigations for the Period October 1, 2009, through March 31, 2010

Investigative Actions	Number
Investigative Caseload	
Investigations Open at End of Previous Reporting Period	22
Investigations Opened during Reporting Period	15
Investigations Closed during Reporting Period	1
Total Investigations Open at End of Reporting Period	36
Investigative Results for Reporting Period	
Referred to Prosecutor	7
Joint Investigations	23
Referred for Audit	0
Referred for Administrative Action	1
Oral and/or Written Reprimands	0
Terminations of Employment	1
Arrests	2
Suspensions	0
Debarments	0
Indictments	2
Criminal Information	1
Convictions	2
Monetary Recoveries	$837,148
Civil Actions (Fines and Restitution)	$0
Criminal Fines (Fines and Restitution)	$50

Hotline Operations

In the wake of the economic crisis, the OIG received 351 complaints from hotline calls, correspondence, email, and facsimile communications from Federal Reserve System employees and members of the public. At the end of this section is a table summarizing our hotline activity statistics for the reporting period. All complaints received were evaluated to determine whether further inquiry was warranted. Most hotline contacts were from consumers with complaints or questions about the practices of financial institutions, financial institution regulators, government officials, and monetary policy decisions. Other hotline contacts were from individuals seeking advice about programs and operations of the Board, Federal Reserve Banks, other OIGs, or other financial regulatory agencies. These inquiries were referred to the appropriate Board offices, Reserve Banks, and other federal or state agencies.

The OIG continued to receive a significant number of fictitious instrument fraud complaints. Fictitious instrument fraud schemes are those in which promoters use fictitious financial instruments, such as fraudulent checks, to obtain an improper financial benefit. Examples of these schemes include the highly publicized Nigerian email scams and instances where fraudulent instruments are claimed to be issued, endorsed, or authorized by the Federal Reserve System.

In addition, we received a number of computer-related complaints involving the Federal Reserve System. This included complaints regarding phishing schemes or fraudulent emails involving solicitations directed at consumers by individuals identifying themselves as representing the Federal Reserve, in order to bolster the legitimacy of the proposed financial transactions. These solicitations promise consumers access to large sums of money after the consumers send sensitive personal or financial information. The Federal Reserve is advising consumers that it does not endorse these solicitations or have any involvement in them.

Summary Statistics on Hotline Activities for the Period October 1, 2009, through March 31, 2010

Hotline Complaints	Number
Complaints Pending from Previous Reporting Period	55
Complaints Received during Reporting Period	351
Total Complaints for Reporting Period	406
Complaints Resolved during Reporting Period	273
Complaints Pending	133

Legal Services

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 and the Board.

In accordance with section 4(a)(2) of the IG Act, the legal 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 programs and operations. During this reporting period, Legal Services reviewed 27 legislative and 4 regulatory items.

Communications and Coordination

While the OIG's primary mission is to enhance the economy, efficiency, and effectiveness of Board 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 are also active members of the broader IG professional community, and we 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 and the Federal Reserve System, we continue to provide information about the OIG's roles and responsibilities and 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 14 responses to congressional members and staff.

Financial Regulatory Coordination

To foster cooperation on issues of mutual interest, including issues related to the current financial crisis, the Board's IG meets regularly with the IGs from other federal financial regulatory agencies: the FDIC, the U.S. Department of the Treasury, the National Credit Union Administration, the Securities and Exchange Commission, the Farm Credit Administration, the Commodity Futures Trading Commission, the Pension Benefit Guarantee Corporation, the Export-Import Bank, and the Federal Housing Finance Agency. We also coordinate with the Government Accountability Office. In addition, the Assistant IG for Audits and Attestations and the Assistant 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.

Troubled Asset Relief Program Oversight and Law Enforcement Coordination

Our office participates with other financial regulatory OIGs on the Troubled Asset Relief Program (TARP) IG Council to facilitate effective cooperation among those entities whose oversight responsibilities relate to or affect the TARP.

We also coordinate with the Special IG for TARP and other law enforcement agencies that are members of the Term Asset-Backed Securities Loan Facility (TALF) Task Force. Representatives from each task force agency identify areas of fraud vulnerability and provide training to agents and analysts with respect to the complex issues surrounding the program. Our office also serves as a point of contact within the task force for leads relating to the TALF and any resulting cases that are generated.

Council of the Inspectors General on Integrity and Efficiency

The Board's 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 Board's 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.

Committee, Workgroup, and Program Participation

The IG continues to serve on various Board committees and work groups, such as the Senior Management Council. In addition, OIG staff members participate in a variety of Board working groups, including the Space Planning Executive Group, the Leading and Managing People Working Group, the Information Technology Advisory Group, the Core Response Group, the Management Advisory Group, the Information Security Committee, and the Continuity of Operations Working Group. Externally, the OIG legal staff are members of the Council of Counsels to the Inspector General. In addition, the Assistant 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.

OIG Information Technology

The OIG continually strives to enhance its IT infrastructure to provide effective, reliable, secure, and innovative information systems for the OIG to carry out its mission. During this reporting period, consistent with the OIG Continuity of Operations Plan, we coordinated with the Board's Division of IT to successfully conduct a thorough test of the contingency IT infrastructure to ensure that it is operational during emergency events. The OIG also continues to maintain its IT-related policies and procedures to ensure OIG compliance with FISMA.

Appendixes

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

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

1. Because the Board is primarily a regulatory and policymaking agency, 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[1]

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

1. Because the Board is primarily a regulatory and policymaking agency, 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[1]

Report	Issue Date	Recommendations: No.	Recommendations: Mgmt. Agrees	Recommendations: Mgmt. Disagrees	Status of Recommendations: Follow up Completion Date	Status of Recommendations: Closed	Status of Recommendations: Open
Audit of Retirement Plan Administration	07/03	4	3	1	03/10	4	0
Evaluation of Service Credit Computations	08/05	3	3	0	03/07	1	2
Audit of the Board's Information Security Program	10/05	2	2	0	11/09	2	0
Security Control Review of the Central Document and Text Repository System (Non-public Report)	10/06	16	16	0	09/09	14	2
Audit of the Board's Payroll Process	12/06	7	7	0	03/10	3	4
Security Control Review of the Internet Electronic Submission System (Non-public Report)	02/07	13	13	0	09/09	12	1
Audit of the Board's Compliance with Overtime Requirements of the Fair Labor Standards Act	03/07	2	2	0	03/08	1	1
Security Control Review of the Federal Reserve Integrated Records Management Architecture (Non-public Report)	01/08	7	7	0	09/09	6	1
Review of Selected Common Information Security Controls (Non-public Report)	03/08	6	6	0	–	–	6
Security Control Review of the FISMA Assets Maintained by FRB Boston (Non-public Report)	09/08	11	11	0	–	–	11
Evaluation of Data Flows for Board Employee Data Received by OEB and its Contractors (Non-public Report)	09/08	2	2	0	–	–	2
Audit of the Board's Information Security Program	09/08	2	2	0	11/09	1	1
Control Review of the Board's Currency Expenditures and Assessments	09/08	6	6	0	03/10	5	1
Audit of Blackberry and Cell Phone Internal Controls	03/09	3	3	0	–	–	3
Inspection of the Board's Law Enforcement Unit (Non-public Report)	03/09	2	2	0	–	–	2
Security Control Review of the Audit Logging Provided by the Information Technology General Support System (Non-public Report)	03/09	4	4	0	–	–	4
Security Control Review of the Electronic Security System (Non-public Report)	06/09	8	8	0	03/10	8	0
Material Loss Review of First Georgia Community Bank	06/09	1	1	0	–	–	1
Material Loss Review of County Bank	09/09	1	1	0	–	–	1

1. 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 Board 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
OIG Reports with Recommendations that Were Open during the Reporting Period—*Continued*

Title	Issue Date	Recommendations: No.	Recommendations: Mgmt. Agrees	Recommendations: Mgmt. Disagrees	Status of Recommendations: Follow up Completion Date	Status of Recommendations: Closed	Status of Recommendations: Open
Audit of the Board's Processing of Applications for the Capital Purchase Program under the Troubled Asset Relief Program	09/09	2	2	0	–	–	2
Audit of the Board's Information Security Program	11/09	4	4	0	–	–	4
Material Loss Review of Community Bank of West Georgia	01/10	1	1	0	–	–	1
Material Loss Review of CapitalSouth Bank	03/10	1	1	0	–	–	1

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

Title	Type of Report
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2009 and 2008, and Independent Auditors' Report	Audit
Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2009 and 2008, and Independent Auditors' Report	Audit
Audit of the Board's Information Security Program	Audit
Material Loss Review of Michigan Heritage Bank	Evaluation
Material Loss Review of Community Bank of West Georgia	Evaluation
Material Loss Review of Neighborhood Community Bank	Evaluation
Material Loss Review of BankFirst	Evaluation
Material Loss Review of Community First Bank	Evaluation
Material Loss Review of Community Bank of Nevada	Evaluation
Material Loss Review of CapitalSouth Bank	Evaluation

Total Number of Audit Reports: 3
Total Number of Inspection and Evaluation Reports: 7

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

Appendix 5
Cross-References to the Inspector General Act

Indexed below are the reporting requirements prescribed by the Inspector General Act of 1978, as amended, during the reporting period.

Section	Source	Page(s)
4(a)(2)	Review of legislation and regulations	33
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	31
5(a)(5)/6(b)(2)	Summary of instances where information was refused	None
5(a)(6)	List of audit, inspection, and evaluation reports	43
5(a)(7)	Summary of particularly significant reports	None
5(a)(8)	Statistical table of questioned costs	39
5(a)(9)	Statistical table of recommendations that funds be put to better use	40
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

Table of Acronyms and Abbreviations

ADC	Acquisition, Development, and Construction
Board	Board of Governors of the Federal Reserve System
CapitalSouth	CapitalSouth Bank
CBON	Community Bank of Nevada
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CLD	Construction and Land Development
Community First	Community First Bank
CRE	Commercial Real Estate
DIF	Deposit Insurance Fund
DoA	Delegation of Authority
ESS	Electronic Security System
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FISMA	Federal Information Security Management Act of 2002
FRB Atlanta	Federal Reserve Bank of Atlanta
FRB Chicago	Federal Reserve Bank of Chicago
FRB Minneapolis	Federal Reserve Bank of Minneapolis
FRB San Francisco	Federal Reserve Bank of San Francisco
IG	Inspector General
IG Act	Inspector General Act of 1978, as amended
ISO	Information Security Officer
IT	Information Technology
Michigan Heritage	Michigan Heritage Bank
MGT	Management Division

Table of Acronyms and Abbreviations

Neighborhood	Neighborhood Community Bank
OIG	Office of Inspector General
POA&M	Plan of Action and Milestones
RBOPS	Division of Reserve Bank Operations and Payment Systems
SR	Supervision and Regulation
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
West Georgia	Community Bank of West Georgia

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