

V. Corporate Management Control

The FDIC uses several means to maintain comprehensive internal controls, ensure the overall effectiveness and efficiency of operations, and otherwise comply as necessary with the following federal standards, among others:

- ◆ Chief Financial Officers' Act (CFO Act)
- ◆ Federal Managers' Financial Integrity Act (FMFIA)
- ◆ Federal Financial Management Improvement Act (FFMIA)
- ◆ Government Performance and Results Act (GPRA)
- ◆ Federal Information Security Management Act (FISMA)
- ◆ OMB Circular A-123
- ◆ GAO's Standards for Internal Control in the Federal Government

As a foundation for these efforts, the DOF Corporate Management Control Branch oversees a corporate-wide program of relevant activities by establishing policies and working with management in each division and office in the FDIC. The FDIC has made a concerted effort to ensure that financial, reputational, and operational risks have been identified and that corresponding control needs are being incorporated into day-to-day operations. The program also requires that comprehensive procedures be documented, employees be thoroughly trained, and supervisors be held accountable for performance and results. Compliance monitoring is carried out through periodic management reviews and by the distribution of various activity reports to all levels of management. Conscientious attention is also paid to the implementation of audit recommendations made by the FDIC Office of the Inspector General, the GAO,

the Treasury Department's Special Inspector General for the TARP program, and other providers of external/audit scrutiny. The FDIC has received unmodified/unqualified opinions on its financial statement audits for 22 consecutive years, and these and other positive results reflect the effectiveness of the overall management control program.

The year 2013 was a continuation of our efforts over the past few years. Considerable energy was devoted to ensuring that the FDIC's processes and systems of control have kept pace with the workload, and that the FDIC's foundation of controls throughout the FDIC remained strong. Enhanced metrics, process mapping, and monitoring activities were put in action, particularly regarding the continuing effort to reduce hiring timeframes.

In 2014, among other things, program evaluation activities will focus on human resources, process mapping, the continuation of activities associated with the Dodd-Frank Act, and closing of the Jacksonville temporary satellite office. Continued emphasis and management scrutiny also will be applied to the accuracy and integrity of transactions, the expansion of performance metrics, and oversight of systems development efforts in general.

MANAGEMENT REPORT ON FINAL ACTIONS

As required under amended Section 5 of the Inspector General Act of 1978, the FDIC must report information on final action taken by management on certain audit reports. The tables on the following pages provide information on final action taken by management on audit reports for the federal fiscal year period October 1, 2012, through September 30, 2013.

**TABLE 1:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS
FOR FISCAL YEAR 2013
Dollars in Thousands**

| | Audit Reports | Number of Reports | Disallowed Costs |
|-----------|---|-------------------|------------------|
| A. | Management decisions – final action not taken at beginning of period | 2 | \$3,794 |
| B. | Management decisions made during the period | 1 | \$741 |
| C. | Total reports pending final action during the period (A and B) | 3 | \$4,535 |
| D. | Final action taken during the period: | | |
| | 1. Recoveries: | | |
| | (a) Collections & offsets | 1 | \$741 |
| | (b) Other | 0 | \$0 |
| | 2. Write-offs | 1 | \$34 |
| | 3. Total of 1 & 2 | 2 | \$774 |
| E. | Audit reports needing final action at the end of the period* | 1 | \$3,760 |

*Total may not foot due to rounding.

**TABLE 2:
MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH RECOMMENDATIONS TO PUT
FUNDS TO BETTER USE FOR FISCAL YEAR 2013
Dollars in Thousands**

| | Audit Reports | Number of Reports | Funds Put To Better Use |
|-----------|---|-------------------|-------------------------|
| A. | Management decisions – final action not taken at beginning of period | 0 | \$0 |
| B. | Management decisions made during the period | 0 | \$0 |
| C. | Total reports pending final action during the period (A and B) | 0 | \$0 |
| D. | Final action taken during the period: | | |
| | 1. Value of recommendations implemented (completed) | 0 | \$0 |
| | 2. Value of recommendations that management concluded should not or could not be implemented or completed | 0 | \$0 |
| | 3. Total of 1 and 2 | 0 | \$0 |
| E. | Audit reports needing final action at the end of the period | 0 | \$0 |

**TABLE 3:
AUDIT REPORTS WITHOUT FINAL ACTIONS BUT WITH MANAGEMENT DECISIONS
OVER ONE YEAR OLD FOR FISCAL YEAR 2013
MANAGEMENT ACTION IN PROCESS**

| Report No. and Issue Date | OIG Audit Finding | Management Action | Disallowed Costs |
|---------------------------|---|---|------------------|
| AUD-12-009 04/05/2012 | <p>The OIG recommended that the FDIC should review the manner in which management fees are calculated under structured asset sale agreements and determine whether it is in the FDIC's best interest for management fees to be paid on nonaccrual and capitalized interest. Based on the results of this review, revisit prior management fees billed by ST Residential, LLC, to ensure they were allowable and clarify the terms of future structured asset sale agreements to more clearly define the manner in which management fees are calculated.</p> | <p>The FDIC will review Corus Construction Venture's (CCV) monthly reports in determining principal balances and the calculation of management fees. If the FDIC's review determines improper management fee amounts, the FDIC will disallow the amounts and request reimbursement; send CCV notification that clarifies how management fees are to be calculated going forward; and ensure that future asset sale agreements include a clear description of how management fees are calculated.</p> <p>Completed: 11/04/2013</p> | \$0 |
| | <p>The FDIC should disallow \$6,258,151 in servicing expenses that were deducted from the collections of funds received from the liquidation of assets during the period covered by the audit. (Questioned Costs of \$3,754,891, which is 60 percent of \$6,258,151.)</p> | <p>The FDIC engaged a Compliance Monitoring Contractor (CMC) to conduct a comprehensive review of servicing expenses (as part of its quarterly compliance review) to determine the amount to be disallowed. Upon completion of the CMC review, the FDIC will request a reimbursement of the disallowed amounts.</p> <p>Completed: 11/04/2013</p> | \$3,754,891 |
| | <p>The FDIC should request that ST Residential discontinue the practice of deducting expenses from the collection of funds received from the liquidation of assets pertaining to the Managing Member's Servicing Obligation and Overhead expenses.</p> | <p>The FDIC will issue written notification to ST Residential to discontinue the practice of deducting expenses from the collection of funds for servicing obligation and overhead expenses and to comply with the transaction documents.</p> <p>Completed: 11/04/2013</p> | |
| | <p>The FDIC should request that FDIC's CMC(s) assess whether unallowable expenses pertaining to services provided by real estate development firms and travel, meals, and entertainment were deducted from the collection of funds received from the liquidation of assets subsequent to September 30, 2010. If such expenses had been deducted, they should be disallowed.</p> | <p>The FDIC engaged a CMC to conduct a comprehensive review of servicing expenses to determine the amount to be disallowed. Upon completion of the CMC review, the FDIC will request a reimbursement for all disallowed amounts.</p> <p>Completed: 11/04/2013</p> | |
| | <p>The FDIC should disallow \$8,929 in management fees paid to the Managing Member. (Questioned Costs of \$5,357, which is 60 percent of \$8,929.)</p> | <p>The specific request is that ST Residential reimburse CCV the disallowed amount of \$8,929. The FDIC will receive 60 percent of the amount reimbursed to CCV.</p> <p>Completed: 11/04/2013</p> | \$5,357 |