Appendix I

FDIC
Federal Deposit Insurance Corporation
550 17th St. NW Washington, DC 20429
Deputy to the Chairman & Chief Financial Officer

February 22, 2006

Mr. David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: FDIC Management Response on the GAO 2005 Financial Statements Audit Report

Dear Mr. Walker:

Thank you for the opportunity to comment on the U.S. Government Accountability Office’s (GAO) draft audit report titled, Financial Audit: Federal Deposit Insurance Corporation Funds’ 2005 and 2004 Financial Statements, GAO-06-146. The report presents GAO’s opinions on the calendar years 2005 and 2004 financial statements of the Bank Insurance Fund (BIF), the Savings Association Insurance Fund (SAIF), and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF). The report also presents GAO’s opinion on the effectiveness of FDIC’s internal controls as of December 31, 2005, and GAO’s evaluation of FDIC’s compliance with applicable laws and regulations.

We are pleased to accept GAO’s unqualified opinions on the BIF, SAIF, and FRF financial statements and to note that there were no material weaknesses identified during the 2005 audits. The GAO reported that the funds’ financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; FDIC had effective internal control over financial reporting and compliance with laws and regulations; and there were no instances of noncompliance with laws and regulations that were tested.

Regarding the reinstated reportable condition on information systems controls, we acknowledge but do not share the GAO’s assessment regarding the severity of the risk impact or the magnitude of the collective vulnerability posed by the potential control issues identified by the GAO’s audit team. Confidence in the sufficiency of our information systems environment and the related information system controls is grounded in what FDIC believes is a deliberate, comprehensive program designed, in conjunction with the deployment of our new financial system, to integrate not only system controls, but procedural, managerial, and audit controls into a balanced and cost-effective control framework. Nevertheless, the FDIC will work diligently with our GAO audit partners, throughout the 2006 audit cycle, to reconcile our respective views on this matter and to augment our program in those instances where it is determined that changes are appropriate.

If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Steven O. App
Deputy to the Chairman and Chief Financial Officer