

V. Management Control

Enterprise Risk Management

The Office of Enterprise Risk Management, under the auspices of the Chief Financial Officer organization, is responsible for corporate oversight of internal control and enterprise risk management (ERM). This includes ensuring that the FDIC's operations and programs are effective and efficient and that internal controls are sufficient to minimize exposure to waste and mismanagement. The FDIC recognizes the importance of a strong risk management and internal control program and has adopted a more proactive and enterprise-wide approach to managing risk. This approach focuses on the identification and mitigation of risk consistently and effectively throughout the Corporation, with emphasis on those areas/issues most directly related to our overall missions. As an independent government corporation, the FDIC has different requirements than the mainstream federal government; nevertheless, its ERM program seeks to comply with the spirit of the following standards, among others:

- Federal Managers' Financial Integrity Act (FMFIA);
- Chief Financial Officers Act (CFO Act);
- Government Performance and Results Act (GPRA);
- Federal Information Security Management Act (FISMA); and
- OMB Circular A-123.

The CFO Act extends to the FDIC the FMFIA requirements for establishing, evaluating and reporting on internal controls. The FMFIA requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems.

The FDIC has developed and implemented management, administrative and financial system controls that reasonably ensure that:

- Programs are efficiently and effectively carried out in accordance with applicable laws and management policies;
- Programs and resources are safeguarded against waste, fraud and mismanagement;
- Obligations and costs comply with applicable laws; and
- Reliable, complete, and timely data are maintained for decision-making and reporting purposes.

The FDIC's control standards incorporate the *Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government*. Good internal control systems are essential for ensuring the proper conduct of FDIC business and the accomplishment of management objectives by serving as checks and balances against undesirable actions or outcomes.

As part of the Corporation's continued commitment to establish and maintain effective and efficient internal controls, FDIC management routinely conducts reviews of internal control systems. The results of these reviews, as well as consideration of the results of audits, evaluations and reviews conducted by the GAO, the Office of Inspector General (OIG) and other outside entities, are used as a basis for the FDIC's reporting on the condition of the Corporation's internal control activities.

Material Weaknesses

Material weaknesses are control shortcomings in operations or systems that, among other things, severely impair or threaten the organization's ability to accomplish its mission or to prepare timely, accurate financial statements or reports. The shortcomings are of sufficient magnitude that the Corporation is obliged to report them to external stakeholders.

To determine the existence of material weaknesses, the FDIC has assessed the results of management evaluations and external audits of the Corporation's risk management and internal control systems conducted in 2006, as well as management actions taken to address issues identified in these audits and evaluations. Based on this assessment and application of other criteria, the FDIC concludes that no material weaknesses existed within the Corporation's operations for 2006. This is the ninth consecutive year that the FDIC has not had a material weakness; however, FDIC management will continue to focus on high priority areas, including various aspects of deposit insurance reform, IT systems security, contract acquisition management, the New Financial Environment, emergency response plan, privacy, and records management, among others. The FDIC will also address all control issues raised by GAO related to its 2006 financial statement audit report.

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, 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, 2005, through September 30, 2006.

Table 1
**Management Report
on Final Action on Audits
with Disallowed Costs**
For Fiscal Year 2006
(October 1, 2005-September 30, 2006)

Audit Reports	Number of Reports	Disallowed Costs (000's)
A. Management decisions – final action not taken at beginning of period	2	\$ 1,969
B. Management decisions made during the period	1	\$ 46
C. Total reports pending final action during the period (A and B)	3	\$ 2,015
D. Audit reports on which final action was taken during the period:		
1. Recoveries:		
a. Collections and offsets	3	\$ 36
b. Other	0	\$ 0
2. Write-offs	2	\$ 1,982
3. Total of 1(a), 1(b), and 2	3 [•]	\$ 2,018 [▲]
E. Audit reports needing final action at the end of the period	0	\$ 0

• Two reports have both collections and write-offs, thus the total of 1(a), 1(b), and 2 is three.

▲ Collections for one report in line D1(a) was more than the amount disallowed in line B for that report; thus line D3 exceeds line C.

Table 2
**Management Report
on Final Action on Audits
with Recommendations
to Put Funds to Better Use**
For Fiscal Year 2006
(October 1, 2005-September 30, 2006)

Audit Reports	Number of Reports	Funds Put to Better Use (000's)
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 2006 (October 1, 2005-September 30, 2006)

Management Action in Process

Report Number and Issue Date	OIG Audit Finding	Management Action	Disallowed Costs
1. 03-007 11-27-02	The OIG made recommendations for improvements in the FDIC's internal network controls.	FDIC is working to secure sensitive data in conjunction with implementation of the enterprise encryption project. Expected completion date: 1st quarter 2007.	\$ 0
2. 04-019 04-30-04	The OIG identified best practices that should be associated with the System Development Life Cycle methodology and related control framework that will be adopted by the Corporation.	Management is in the process of reviewing closure documentation. Expected completion date: 1st quarter 2007.	\$ 0
3. 05-031 09-08-05	The OIG made recommendations to establish an organizational policy and system-specific procedures to ensure proper configuration management of operating system software.	Management is in the process of reviewing closure documentation. Expected completion date: 1st quarter 2007.	\$ 0
4. 05-036 09-21-05	The OIG made a recommendation to research the General Services Administration's (GSA's) e-Travel Programs and determine whether the travel services available under the programs could improve or replace the FDIC's current travel program.	Management is in the process of reviewing the benefits of each of GSA's e-Travel programs. Additionally, management will review other commercial travel processing systems along with FDIC's travel system to determine the feasibility of adding capabilities available in GSA's programs. Expected completion date: 3rd quarter 2007.	\$ 0