Offices of Inspector General

Department of the Treasury
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation

Status of the Transfer of Office of Thrift Supervision Functions

OIG-11-109
FRB OIG 2011-04
EVAL-11-005

September 28, 2011

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Abbreviations

Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FDIC	Federal Deposit Insurance Corporation
FIRF	Financial Institutions Retirement Fund
FRB	Board of Governors of the Federal Reserve System
NBE	National Bank Examiner
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
Plan	Joint Implementation Plan
Title III	Transfer of Powers to the Comptroller of the Currency, the Corporation, and the Board of Governors
Treasury	Department of the Treasury

Offices of Inspector General

September 28, 2011

Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System

Martin J. Gruenberg, Acting Chairman
Federal Deposit Insurance Corporation

John G. Walsh, Acting Comptroller of the Currency
Office of the Comptroller of the Currency

John E. Bowman, Acting Director
Office of Thrift Supervision

This report presents the results of our offices' joint review of the status of the implementation activities of the Joint Implementation Plan (Plan) prepared by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). The Plan detailed the steps the agencies were to take to carry out the provisions of Title III, *Transfer of Powers to the Comptroller of the Currency, the Corporation, and the Board of Governors* (Title III), of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Section 327 of Title III mandated an initial joint review of the Plan by our offices to determine whether the Plan conformed to relevant Title III provisions. We completed that review and issued our report[1] on March 28, 2011, concluding that

[1] Department of the Treasury (Treasury) Office of Inspector General (OIG), FDIC OIG, and FRB OIG, *Review of the Joint Implementation Plan for the Transfer of Office of Thrift Supervision Functions*, OIG-11-064/FRB OIG 2011-02/EVAL-11-002 (Mar. 28, 2011).

the Plan generally conformed to the relevant provisions of Title III. We noted, however, that the Plan did not address the prohibition in Title III against the involuntary separation or the involuntary reassignment of a transferred OTS employee outside the employee's locality pay area for 30 months (except under certain circumstances). In response to that recommendation, the agencies amended the Plan in April 2011.

The objective of our current review, as defined by section 327, was to determine and report on the status of the implementation of the Plan. To accomplish our objective, we reviewed the actions FRB, FDIC, OCC, and OTS have taken to implement the Plan. As part of our work, we interviewed officials from FRB, FDIC, OCC, and OTS, and reviewed relevant documentation. We conducted our fieldwork from April 2011 to August 2011. Appendix 1 contains a detailed description of our objective, scope, and methodology.

In brief, we concluded that FRB, FDIC, OCC, and OTS have substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, funds, and property to FRB, FDIC, and OCC, as appropriate. Certain aspects of the Plan, as discussed below, are on-going or were not yet required to be completed as provided in Title III.

In our March 2011 report, we reported that, while not impacting our overall conclusion on the Plan, certain details needed to be worked out to ensure that OTS employees were not unfairly disadvantaged and an orderly transfer of OTS powers, authority, and employees could be effectively accomplished. For example, neither the number of employees to be transferred to OCC nor the assignment of functions for those employees had been finalized at the completion of our last review. Those details have largely been resolved with the exception that the Acting Director of OTS has not yet received a notice of position assignment from OCC. In this regard, OCC has 120 days after the date the Acting Director is transferred to OCC to issue the notice. Such transfer must occur not later than 90 days after the transfer date (July 21, 2011). Title III also provides for the OTS Director to have 90 days after the transfer date to wrap up OTS affairs.

Our March 2011 report also identified a concern expressed by OTS officials related to additional OCC certification requirements in order to qualify to lead examinations of national banks, in addition to savings associations. OCC is addressing this matter with a project to develop a cross-credentialing process for both OCC and former OTS examiners, but has not estimated a date for its completion. Finally, we are providing an update on several other matters identified in our March 2011 report associated with the transfer of OTS functions, including an OTS pension fund, savings association assessments, and financial reporting by OTS.

In accordance with section 327, we will continue to monitor the implementation of the Plan and the resolution of certain matters discussed in this report.

Background

Title III of the Dodd-Frank Act sets forth provisions to address problems and concerns in the multiple agency financial regulatory system by abolishing OTS and transferring its powers and authorities to FRB, FDIC, and OCC on July 21, 2011 (which for purposes of the title is deemed the "transfer date"). All OTS functions relating to federal savings associations, all OTS rulemaking authority for federal and state savings associations, and the majority of OTS employees were transferred to OCC. OTS's supervisory responsibility for state-chartered savings associations and OTS employees to support these responsibilities were transferred to FDIC;[2] and OTS's authority for consolidated supervision of savings and loan holding companies and their non-depository subsidiaries were transferred to FRB. No OTS employees were required to be transferred to FRB.

Section 327(a) of Title III required FRB, FDIC, OCC, and OTS to jointly submit a plan within 180 days to the Congress and the Inspectors General of FRB, FDIC, and Treasury, detailing the steps they will take to implement the provisions of sections 301 through 326 of Title III. We and the Congress received the Plan fulfilling this requirement on January 25, 2011.

[2] FDIC accepted the transfer of other OTS employees to fill actual and, to a limited extent, other anticipated vacancies.

Section 327(b) of Title III required that within 60 days of receiving the Plan, the Inspectors General of FRB, FDIC, and Treasury jointly provide a written report to FRB, FDIC, OCC, and OTS, with copies to the Congress, that detailed whether the Plan conformed to the provisions of sections 301 through 326 and included any additional recommendations for an orderly and effective process. We jointly issued that report, *Review of the Joint Implementation Plan for the Transfer of Office of Thrift Supervision Functions,* on March 28, 2011, fulfilling this requirement.

Section 327(c) of Title III requires that, within 6 months of the Congress receiving the report, the Inspectors General of FRB, FDIC, and Treasury must jointly provide a written report on the status of the implementation of the Plan to FRB, FDIC, and OCC, with a copy to the Congress. Further, the Inspectors General of FRB, FDIC, and Treasury must jointly provide such a written report every 6 months thereafter until all aspects of the Plan have been implemented.

Results of the Joint Review

We concluded that FRB, FDIC, OCC, and OTS have substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, property, and funds to FRB, FDIC, and OCC, as appropriate. Certain aspects of the Plan, as discussed below, are ongoing or were not yet required to be completed as provided in Title III.

OTS Employees Transferred to FDIC and OCC as Outlined in the Plan

We concluded that OTS employees were transferred to FDIC and OCC as outlined in the Plan. Ninety-five (95) OTS employees were transferred to FDIC, and 670 OTS employees were transferred to OCC.

Title III, Section 322, required that each transferred OTS employee was to receive a notice of position assignment by November 18, 2011. OCC sent notices of position assignment to all OTS employees on May 6, 2011, with the exception of the

Acting Director of OTS. FDIC and the Consumer Financial Protection Bureau subsequently made employment offers that, if accepted by the OTS employee, essentially superseded the OCC notices of position assignments as of June 1, 2011.

As noted in the Plan, the Acting Director is to remain at OTS to wrap up its affairs during the 90-day period after the transfer date (the 90-day period ends October 19, 2011). Accordingly, an OCC official stated that they would not transfer the Acting Director to OCC or provide a notice of position assignment to the Acting Director until the wrap-up of OTS's affairs is completed.[3]

We noted in our March 2011 report that according to OCC, while decisions had not been made at the time, OCC expected there would be circumstances where it would be necessary to involuntarily reassign an employee outside of his or her locality pay area for the efficient operation of the agency. Since then, as of August 31, 2011, OCC made eight such involuntary reassignments. According to an OCC official, the transferees are being reassigned because their positions were deemed necessary at those OCC locations for the efficient operation of the agency, which was an exception allowed to the general Title III prohibition against the involuntary reassignment of employees for 30 months. We consider these reassignments to be reasonable and in accordance with Title III.

Procedures and Safeguards Are in Place as Outlined in the Plan to Ensure that Transferred OTS Employees Are Not Unfairly Disadvantaged

Based on interviews with FDIC, OCC, OTS officials, and former OTS employees transferred to OCC, we concluded that FDIC and OCC generally have procedures and safeguards in place as outlined in the Plan to ensure that OTS employees are not unfairly disadvantaged relative to employees of FDIC and OCC.

In our March 2011 report, we identified that OTS officials had expressed a concern relating to OCC plans for requiring additional

[3] Title III, Section 313, Abolishment, states OTS and the position of the OTS director will be abolished effective 90 days after the transfer date.

certification for transferred OTS examiners[4] before they are allowed to supervise national bank examinations.[5] In this regard, OCC operates under a long-standing position that an examiner-in-charge for a national bank must be an OCC-commissioned national bank examiner (NBE). An additional OTS concern related to OCC's plans to assign the TG-18 OTS examiners to a newly created OCC pay band.[6] This newly created pay band provides the same pay range as the former OTS pay band, but with a lower salary ceiling than journey-man level, NB-V commissioned OCC bank examiners. The TG-18 OTS examiners will remain in that newly created pay band until they earn an NBE commission or until they are selected through competition to a higher band position that does not require the NBE commission. See Appendix 2 for a description of OCC's new pay band for certain transferred OTS employees.

We also noted in our March 2011 report that OCC had contracted with a consultant to study and identify any differences between the OTS examiner accreditation process and the OCC Uniform Commission Examination process. As an update, we found that the consultant has completed its study and differences between the two processes were identified. In this regard, OCC had not yet estimated a completion date for revising the Uniform Commission Examination testing process for the examiners. OCC contracted with a consultant on July 29, 2011, for a project to validate the Uniform Commission Examination; the consultant's report is due March 31, 2012. OCC was also still determining what alternative qualification process will be required for certain OTS examiners to acquire the NBE commission without taking the full Uniform Commission Examination, based on their experience. This alternative process will also include the certification of existing NBEs as qualified to lead examinations of Federal savings

[4] OTS examiners who had earned an NBE commission during previous employment with the OCC are not subject to this requirement.
[5] On the other hand, FDIC was not requiring additional certification for transferred OTS examiners before they were able to supervise FDIC-regulated bank examinations.
[6] The affected OTS examiners held the title of Examiner III and they were at the OTS TG-18 grade level, with the authority to sign off on reports of savings association examinations. According to OCC, being a commissioned national bank examiner demonstrates that the individual has the requisite competence in not only the full range of safety and soundness issues, but also asset management, bank information systems, and compliance, while the OTS TG-18 examiner has only been accredited in safety and soundness with the option to pursue an additional discipline such as compliance, asset management, or bank information technology.

associations. OCC is finalizing a statement of work for a solicitation to hire a contractor to assist in this effort.

We interviewed 22 former OTS employees[7] who transferred to OCC regarding the transfer process. In general, the employees stated that they were treated fairly during the transfer process. However, regarding the accreditation process, some of the impacted employees continued to express concern that OCC had not yet determined what additional examination requirements are necessary to obtain the NBE commission.

In our March 2011 report, we discussed OTS's concerns that there would not be enough positions with the same functions for all OTS transferred employees, including support staff, at OCC. For example, with regard to management positions, the number of proposed management positions available to OTS transferred employees was fewer than the number of OTS authorized management positions. Accordingly, there was concern that OTS managers would be assigned to positions at least one level lower than what they held at OTS. As we reported, OTS conveyed these concerns to OCC through correspondence and meetings. OCC has taken the position that the Dodd-Frank Act does not require OCC to redesign or reorganize OCC's structure so that OTS managers are guaranteed particular positions. Rather, the Act provides that transferred employees will be placed in positions at OCC and FDIC responsible for the same functions and duties, *to the extent practicable* (emphasis added).[8]

In our interviews of the 22 former OTS employees, 2 employees said that they felt that they were placed in positions where their skills are not fully utilized, 7 employees said that they felt their position assignments were downgraded, and 5 said that they felt

[7] We selected for interview a cross-cut of 22 former OTS employees transferred to OCC, which included (1) 5 senior employees; (2) 10 examiners, including 6 examiners that were assigned to a newly created OCC pay band; and (3) 7 employees performing various other administrative or technical functions. Our interview questions related to the transfer process and their roles and responsibilities at OCC relative to their roles and responsibilities at OTS.

[8] The applicable language from Title III, section 322(e)(2), states that, to the extent practicable, each transferred employee shall be placed in a position at OCC or FDIC, as applicable, responsible for the same functions and duties as the transferred employee had on the day before the date on which the employee was transferred, in accordance with the expertise and preferences of the transferred employee.

that they were placed in positions with different duties than their previous position at OTS. Nevertheless, the employees generally acknowledged during the interviews that overall the transfer process as carried out by OCC was fair.

Section 322 of Title III requires that a study of safeguards and procedures be performed by OCC and FDIC to ensure transferred OTS employees are not unfairly disadvantaged. The study is due one year after the transfer date (July 21, 2012). We plan to review and report on that study going forward.

OTS Authorities and Responsibilities Transferred to FDIC, FRB, and OCC as Outlined in the Plan

We concluded that OTS authorities and responsibilities were transferred to FDIC, FRB, and OCC, as outlined in the Plan. On July 21, 2011, as planned, all OTS functions relating to federal savings associations and all OTS rulemaking authority for federal and state savings associations transferred to OCC; OTS's supervisory responsibility for state-chartered savings associations transferred to FDIC; and OTS's authority for consolidated supervision of savings and loan holding companies and their non-depository subsidiaries transferred to FRB.

In our March 2011 report, we noted that Title III transfers all rulemaking authority for savings associations, both federal and state, to OCC. At that time FDIC officials expressed concerns that not transferring the state-chartered savings associations' rulemaking authority to FDIC could inhibit FDIC's ability to effectively regulate the 61 state-chartered savings associations being transferred to FDIC. However, FDIC officials have now said there is less concern. Despite the initial thought that OCC had all the rulemaking authority, FDIC officials concluded that FDIC does have rulemaking authority when FDIC is "the appropriate federal banking agency." While the authority does not cover all of FDIC's responsibilities over state-chartered savings associations, it narrows the areas of concern. Further mitigating FDIC's concern is that some regulations require interagency coordination, or such a collaborative approach has been the practice even if not required, and OCC has demonstrated a very collaborative approach according to FDIC.

Substantially All OTS Funds Transferred to OCC as Outlined in the Plan

OTS funds totaling $282 million were transferred to OCC on July 21, 2011. An additional $2.3 million related to the sale of OTS-held Treasury securities that occurred just prior to the transfer date was transferred to OCC on August 8, 2011. In addition, the OTS Acting Director requested $2.25 million to wind up the affairs of OTS. While held by OCC, the $2.25 million is kept separate from the rest of OCC's funds, and any remaining funds after the wind-up will be transferred to OCC for its operations. We plan to monitor and report on the disposition of these remaining funds in our future work.

As noted in our prior report, FDIC and FRB determined that no OTS funds would be transferred to them. However, as part of the transfer of employees, we reported that OTS committed to fund relocation expenses for transferring OTS staff to FDIC. As an update, FDIC will pay to relocate 10 transferring OTS employees and OCC, as successor to OTS, will reimburse FDIC for the relocation expenses. At the time of this review, there are no apparent outstanding issues for FDIC regarding transfer of funds.

OTS Property Transferred to FDIC, FRB, and OCC as Outlined in the Plan

As required by Title III, OCC has 90 days after the transfer date (October 19, 2011) to transfer all property. According to an OCC official, all fixed assets were transferred to OCC and all other physical property is scheduled to be transferred to OCC by September 30, 2011. No OTS assets, information technology systems, equipment, or other infra-structure were transferred to FDIC. However, OTS provided FDIC and FRB with computers to facilitate direct access to OTS systems that OCC will assume and maintain until December 31, 2011. In addition, OTS provided its records to FDIC, FRB, and OCC. Under a memorandum of understanding, OCC will provide FDIC any records it requires for up to 90 days after the transfer date.

Other Matters Identified in Prior Report

In our March 2011 report, we reported on several other matters associated with the transfer of OTS functions, including an OTS pension fund, savings association assessments, and financial reporting by OTS. Following is an update on those matters.

- Underfunded Pension Plan: As noted in our prior report, most OTS employees participated in either the Civil Service Retirement System or the Federal Employees Retirement System, administered by the Office of Personnel Management. However, approximately 460 OTS retirees and 375 former OTS employees also participated in a separate retirement system, the Financial Institutions Retirement Fund (FIRF), which was funded by OTS. Under the Plan, OCC was to sponsor FIRF after the transfer date. As of July 1, 2010, FIRF had an estimated shortfall of $74.7 million. OCC has not been provided a final number by the plan administrator; however, as of July 29, 2011, OCC estimated the total shortfall to be approximately $85 million. According to an OCC official, OCC intends to fund, and has budgeted for, the entire FIRF shortfall in early fiscal year 2012.

  OTS employees transferred to FDIC will retain the same retirement plan they had at OTS. FDIC already has staff in the Civil Service Retirement System and the Federal Employees Retirement System, so providing those plans to OTS employees requires no specific FDIC action. OCC will continue to administer FIRF for all former OTS employees covered by that retirement system, including those who transferred to FDIC and to the Consumer Financial Protection Board. FDIC, as agreed in a memorandum of understanding, will reimburse OCC for the cost to administer FIRF for any OTS transferees in FIRF who became FDIC employees.

- Supervisory Assessments: Section 318 of Title III, which relates to funding, states that OCC may collect assessments, fees, or other charges, as determined necessary or appropriate to carry out its responsibilities; and that the cost of conducting any regular examination or special examination may be assessed by FDIC against the institution or entity to meet the expenses of

FDIC in carrying out such examinations. With the transfer of OTS functions, federally-chartered savings associations will pay assessments to OCC. Consistent with FDIC's current practice for state non-member insured depository institutions for which it is the primary federal supervisor, state-chartered savings associations will not pay FDIC assessments for examinations. Rather, FDIC is funded by premiums that financial institutions pay for deposit insurance coverage and from earnings on investments in U.S. Treasury securities. There has been no change in OCC's and FDIC's intentions for savings association supervisory assessments from our prior report, and we do not plan to report on this matter in the future.

It should be noted that for savings and loan holding companies and bank holding companies with assets of $50 billion or more, and nonbank financial companies that FRB will be required to supervise pursuant to the Dodd-Frank Act, FRB is to collect a total amount of assessments, fees, or other charges that are equal to the expenses FRB estimates are necessary or appropriate to carry out its supervisory and regulatory responsibilities. To satisfy this requirement, a notice of proposed rulemaking for the assessments is currently being drafted, with collection anticipated to begin in 2012, retroactive to the transfer date.

- <u>OTS Financial Reporting for Fiscal Year 2011:</u> Our March 2011 report noted that OTS, OCC, and their respective auditors were determining the financial reporting requirements, presentation, and audit scope related to OTS's fiscal year 2011 financial statements at that time. As an update, OTS will prepare final audited financial statements covering the period October 1, 2010, to July 20, 2011.

Management Response and OIG Comment

We provided a draft of this report to FRB, OCC, the Acting OTS Director, and FDIC. We received written responses from FRB and OCC and considered informal comments received from FDIC and the Acting OTS Director.

FRB stated in its written response that it agrees with the conclusion that the Federal Reserve has substantially implemented the actions in the Plan that were necessary to transfer the OTS supervision functions, employees, funds, and property to the Federal Reserve, FDIC, and OCC, as appropriate. OCC stated in its written response that it agrees with the conclusions in our report.

FRB's and OCC's written responses are included in this report as appendices 3 and 4, respectively.

* * * * * * *

We appreciate the courtesies and cooperation provided to our staffs during the audit. If you wish to discuss the report, you may contact Marla A. Freedman, Assistant Inspector General for Audit, Treasury OIG, at (202) 927-5400; E. Marshall Gentry, Assistant Inspector General for Evaluations, FDIC OIG, at (703) 562-6378; or Anthony J. Castaldo, Associate Inspector General for Inspections and Evaluations, FRB OIG, at (202) 973-5024. Major contributors to this report are listed in Appendix 6.

/s/	/s/	/s/
Eric M. Thorson Inspector General Department of the Treasury	Jon T. Rymer Inspector General Federal Deposit Insurance Corporation	Mark Bialek Inspector General Board of Governors of the Federal Reserve System

As required by Title III, *Transfer of Powers to the Comptroller of the Currency, the Corporation, and the Board of Governors* (Title III), of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) prepared a Joint Implementation Plan (Plan) to accomplish the transfer of functions, employees, property, and funds of OTS as well as implement other provisions of Title III. We conducted this joint review to fulfill our requirement under section 327(c) of Title III. This section requires the Inspectors General of FRB, FDIC, and the Department of the Treasury (Treasury) to provide a written report on the status of the implementation of the Plan every 6 months until all aspects of the Plan are implemented.

To accomplish this requirement, we performed the following work:

- We reviewed the amended Plan as amended in April 2011. We reviewed the actions FRB, FDIC, OCC, and OTS have taken to implement the Plan.
- We reviewed relevant FDIC documentation, such as Federal Register notices; memorandums of understanding for records sharing, retirement benefits, non-retirement benefits, and detail of staff; thrift reporting, staffing, and logistics meeting agendas and minutes; an amendment to the FDIC Savings Plan; selection and welcome letters; FDIC 2011 performance goals related to the transfer of OTS functions; and an announcement for FDIC voluntary expressions of interest to OTS staff.
- We reviewed relevant FRB documentation, such as internal FRB correspondence, newly developed supervisory guidance for Savings and Loan Holding Companies, the interagency memorandum of understanding for transferring and sharing of OTS records, the interagency Federal Register notice to change OTS data reporting requirements, the Federal Register notice of intent to enforce certain regulations previously issued by OTS, and presentations by Federal Reserve supervisors to Savings and Loan Holding Company management.
- We reviewed relevant OCC documentation, such as OCC's interim final rule to reissue OTS regulations and OCC's final rule to implement provisions of the Dodd-Frank Act; correspondence between OCC and OTS discussing the upcoming transfer of

OTS; OCC's notices of position assignment issued to OTS employees; the final report of the consultant hired by OCC to identify any differences between the OTS examiner accreditation process and the OCC Uniform Commission Examination process; and an OCC memorandum documenting the process for the final financial reporting by OTS and related audit approach.

- With respect to FDIC, we interviewed officials involved in implementing the Plan, including the Deputy Director, Corporate Planning and Performance Management, Division of Finance; Acting Deputy Director for Human Resources, Division of Administration; Chief, Data Strategy Section and Acting Associate Director, Statistics Branch; Chief Information Officer and Director, Division of Information Technology; Deputy General Counsel, Supervision; and additional FDIC staff from the Division of Administration, the Division of Risk Management Supervision, and the Legal Division.
- With respect to OCC, we interviewed the Senior Deputy Comptroller for Midsize/Community Bank Supervision, the Deputy Chief Counsel, the Deputy Comptroller for Human Resources, and the Senior Deputy Comptroller for Management and Chief Financial Officer.
- We also interviewed 22 former OTS employees who transferred to OCC. The 22 former OTS employees included (1) 5 senior employees; (2) 10 examiners, including 6 examiners who were assigned to a newly created pay band; and (3) 7 employees performing various administrative or technical functions. Our interview questions related to the transfer process and their roles and responsibilities.
- With respect to OTS, we interviewed the Acting Director and the Deputy Director. The Deputy Director has since retired from federal service.
- With respect to FRB, we interviewed a Senior Associate Director, Division of Banking Supervision and Regulation; the Chief Financial Officer, Management Division; and mid-level and senior officials from the Division of Banking Supervision and Regulation, the Management Division, and the Legal Division.
- We observed part of the OTS transferee staff orientation at FDIC on July 19, 2011.
- We discussed and obtained documentation of the Thrift Reporting Staffing and Logistics working group activities.

Consistent with our objective, we did not assess FRB's, FDIC's, OCC's, or OTS's overall internal control or management control structure, obtain data from their information systems, or assess the effectiveness of their information system controls. We conducted our fieldwork at FDIC in Arlington, Virginia, and at FRB, OCC, and OTS in Washington, DC, from April 2011 to August 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

This appendix presents a description of the pay structures of the Office of Thrift Supervision (OTS), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC), and OCC's new pay band for certain transferred OTS employees.

OTS Pay Structure

OTS had a 30-grade pay system, with grades 25 to 30 regarded as the executive level. Salary ranges included a minimum, midpoint, and maximum. Salary structures were also adjusted to reflect geographic differences in the cost of living. OTS considered the employee's full salary as base-pay for all compensation computations.

OCC Pay Structure

OCC has an 11-band pay system, with bands VIII and IX regarded as the executive level. Minimum and maximum salaries are set within each band, and salaries are adjusted based on merit. OCC considers the band salaries as base pay and separately uses geographic pay differentials when OCC finds significant differences in living and/or labor costs for various metropolitan areas. Benefit computations include base pay plus any geographic differential.

New OCC Pay Band for Certain Transferred OTS Employees

OCC created a new pay band (NB-V-T) for transferred OTS examiners having the examiner III title and at the TG-18 OTS grade level. The salary ranges ($56,032-$102,036) for both the new OCC pay band and OTS's TG-18 grade level are identical. OTS transferees who are placed in the NB-V-T pay band will be eligible to receive special increases consistent with OCC policy. They will also move to the full NB-V pay band salary range ($64,400 - $119,900) when they earn a National Bank Examiner commission, which is a requirement of the NB-V level. In addition, they will receive a $3,000 bonus if they successfully complete the commissioning process on the first attempt. Alternatively, NB-V-T examiners can compete for NB-V bank examiner positions in large banks without acquiring a

National Bank Examiner commission, if they possess sufficient specialty expertise.

FDIC Pay Structure

FDIC has a 15-grade corporate grade (CG) structure for non-supervisory employees; two corporate manager (CM) pay bands for supervisory and managerial employees; a corporate expert (CX) pay band for senior, non-supervisory and managerial employees; and an executive management (EM) pay band for executive level employees. Minimum and maximum salaries are set for each grade/pay band. FDIC salaries include two components, base salary and a locality pay adjustment. Benefits computations are based on base pay plus locality pay. FDIC negotiates pay and benefits with its employee union, and pay and benefits for its bargaining unit employees are typically covered by multi-year negotiated compensation. Because both the FDIC and OTS pay structures had been previously cross-walked to the General Schedule, it was a simple task to define specific cross-walks between the OTS and FDIC pay structures (except for FDIC's CM2 and EM grade classifications).

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

September 23, 2011

Mark Bialek
Inspector General
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mark,

Thank you for providing the Federal Reserve with the opportunity to review and comment on the Office of Inspector Generals' draft report of the *Review of the Joint Implementation Plan for the Transfer of Office of Thrift Supervision Functions*. We have reviewed the report and agree with the conclusion that the Federal Reserve has substantially implemented the actions in the Plan that were necessary to transfer the OTS supervision functions, employees, funds, and property to the Federal Reserve, FDIC, and OCC, as appropriate.

We appreciate your efforts and the professionalism extended to the officers and staff of the Federal Reserve throughout this review. Please let me know if you have any questions.

Sincerely,

/s/

Maryann Hunter
Deputy Director
Division of Banking Supervision and Regulation

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Eric M. Thorson, Inspector General, Department of the Treasury
Jon T. Rymer, Inspector General, Federal Deposit Insurance Corporation
Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System

From: John Walsh, Acting Comptroller of the Currency

Date:

Subject: Comments on Draft Report on Joint Implementation Plan

We have received and reviewed your draft report titled "Status of the Transfer of Office of Thrift Supervision Functions." Your overall objective, as defined by section 327 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), was to determine and report on the status of the implementation of the Joint Implementation Plan (Plan). The Plan was developed by the agencies to carry out the provisions of Title III of the Dodd-Frank Act, transferring the powers of the Office of Thrift Supervision (OTS) to the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System (FRB).

You concluded that OTS employees had been transferred to FDIC and OCC as outlined in the Plan; procedures and safeguards are in place as outlined in the Plan to ensure that transferred OTS employees are not unfairly disadvantaged; OTS authorities and responsibilities were transferred to FDIC, FRB, and OCC as outlined in the Plan; substantially all OTS funds had been transferred to OCC as outlined in the plan; and OTS property was transferred to FDIC, FRB, and OCC as outlined in the Plan.

We agree with your conclusions and thank you for the opportunity to review and comment on the draft report. If you need additional information, please contact Thomas R. Bloom, Senior Deputy Comptroller for Management and Chief Financial Officer, at 202-649-6100.

OCC Draft Management Response Received on September 28, 2011

Board of Governors of the Federal Reserve System OIG

Timothy Rogers, OIG Manager
David Horn, Auditor and Project Lead
Jonathan Park, Auditor

Federal Deposit Insurance Corporation OIG

A. Michael Stevens, Evaluator-in-Charge

Department of the Treasury OIG

Susan Barron, Audit Director
Amni Samson, Audit Manager
Alicia Bruce, Auditor-in-Charge
Kathryn Bustell, Auditor
John Tomasetti, Auditor
James Lisle, Referencer

<u>Board of Governors of the Federal Reserve System</u>

Chairman

<u>Federal Deposit Insurance Corporation</u>

Acting Chairman

<u>Department of the Treasury</u>

Deputy Secretary of the Treasury
Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

<u>Office of the Comptroller of the Currency</u>

Acting Comptroller of the Currency
Liaison Officer

<u>Office of Thrift Supervision</u>

Acting Director

<u>Office of Management and Budget</u>

OIG Budget Examiner

<u>United States Senate</u>

Chairman and Ranking Member
Committee on Banking, Housing, and Urban Affairs

<u>U.S. House of Representatives</u>

Chairman and Ranking Member
Committee on Financial Services