FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC TO TEST USING ACCOUNTANTS TO SUPPLEMENT EXAMINATION STAFF

The Board of Directors of the Federal Deposit Insurance Corporation has voted to proceed with a pilot program involving the use of public accounting firms to supplement the agency's field examination staff, FDIC Chairman L. William Seidman today told a Bank Administration Institute conference in Boston.

Chairman Seidman said the project is intended to determine whether private accountants feasibly can be used to help reduce the FDIC's examination backlog. "A limited workforce and an increasing supply of problem banks have caused us to fall significantly behind schedule in our examinations," he said.

Mr. Seidman announced that Arthur Young and Arthur Anderson & Co. have been selected to participate in the test program. The firms' accountants will be trained to work with FDIC staff in examining banks in the Dallas and Kansas City Regions. "If this team examination approach is successful," Mr. Seidman said, "we will move from the pilot phase to a competitive bid program in the near future."

Chairman Seidman also announced that the FDIC last week activated a "red flags" warning system for use by its examiners. This is an innovative detection tool to help examiners and auditors uncover early signs of possible fraud and gives guidance on pursuing such signs.

The "red flags" early warning system focuses on a dozen particular areas of banking operations, including such activities as linked financing/brokered transactions, loan participations, insider transactions, wire transfers and money laundering.

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"We recognize that no system can detect all instances of apparent fraud and insider abuse," remarked Chairman Seidman. "But, potential problems can often be uncovered when certain warning signs are evident. The system is intended to help examiners and auditors recognize and follow up on those warning signs."

Mr. Seidman noted that banks that are deteriorating tend not to invite review of their operations. He pointed out that only 17 percent of the banks that failed in 1986 had a full-scope audit within one year of their failure, compared to an average of 65 percent for operating national banks, according to a recent survey. "It looks like the tendency to have an audit decreases as the potential for failure increases," Mr. Seidman said. He noted that the banking agencies are studying the feasibility of requiring an annual independent audit for banks with a size cutoff.

Mr. Seidman said the FDIC and other bank regulators have taken the following steps to detect and control fraud and insider abuse:

-- A white collar crime school is now operating, training examiners to identify the sophisticated means by which fraud and abuse are committed.

-- The FDIC is developing a corps of specialists skilled in conducting complex fraud investigations.

-- The banking agencies have joined with the Justice Department and the FBI in a Bank Fraud Enforcement Working Group that meets monthly to review specific cases and important developments.

-- A new computer system for tracking criminal cases is aiding the agencies in spotting trends, geographic patterns and emerging problems.

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