What GAO Did This Study

GAO is required to annually audit the financial statements of the Deposit Insurance Fund (DIF) and FSLIC Resolution Fund (FRF), which are administered by the Federal Deposit Insurance Corporation (FDIC). GAO is responsible for obtaining reasonable assurance about whether FDIC’s financial statements for DIF and FRF are presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles, and whether FDIC maintained effective internal control over financial reporting and compliance with laws and regulations. Also, GAO is responsible for testing FDIC’s compliance with selected laws and regulations.

Created in 1933 to insure bank deposits and promote sound banking practices, FDIC plays an important role in maintaining public confidence in the nation’s financial system. In 1989, legislation to reform the federal deposit insurance system created three funds to be administered by FDIC: the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), which protect bank and savings deposits, and FRF, which was created to close out the business of the former Federal Savings and Loan Insurance Corporation. In accordance with subsequent legislation passed in 2006, FDIC merged the BIF and SAIF into DIF on March 31, 2006.

What GAO Found

In GAO’s opinion, FDIC fairly presented, in all material respects, the 2007 and 2006 financial statements for the two funds it administers—DIF and FRF. Also, in GAO’s opinion, FDIC had effective internal control over financial reporting and compliance with laws and regulations for each fund. GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

The banking industry faced increased challenges in 2007. The downturn in housing markets led to asset-quality problems and volatility in financial markets, which hurt banking industry performance and threatened the viability of some institutions that had significant exposure to higher-risk residential mortgages. It is uncertain how long the effects of this downturn will last. In addition to a recorded estimated liability of $124 million as of December 31, 2007, for the anticipated failure of some DIF insured institutions, FDIC has identified additional risk that could result in further estimated loss to the DIF of $1.7 billion should potentially vulnerable insured institutions ultimately fail. FDIC continues to evaluate the risks to affected institutions in light of evolving economic conditions, but the impact of such risks on the DIF cannot be reasonably estimated at this time. Actual losses, if any, will largely depend on future economic and market conditions and could differ materially from FDIC’s estimates.

GAO noted other less significant matters involving FDIC’s internal controls, including information system controls, and will be reporting separately to FDIC management on these matters.

February 2008

FINANCIAL AUDIT

Federal Deposit Insurance Corporation Funds' 2007 and 2006 Financial Statements

To view the full product, including the scope and methodology, click on GAO-08-416. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.