Why GAO Did This Study

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. FDIC administers the DIF, which protects bank and savings deposits, and the FRF, which was created to close out the business of the former FSLIC.

Section 17 of the Federal Deposit Insurance Act, as amended, and the Government Corporation Control Act require GAO to annually audit the financial statements of the DIF and the FRF. GAO is responsible for obtaining reasonable assurance about whether FDIC’s financial statements for the DIF and the FRF are presented fairly in all material respects, in conformity with U.S. generally accepted accounting principles, and whether FDIC maintained, in all material respects, effective internal control over financial reporting. Further, GAO did not find any reportable instances of noncompliance with provisions of the laws and regulations it tested.

What GAO Found

In GAO’s opinion, the Federal Deposit Insurance Corporation (FDIC) fairly presented, in all material respects, the 2011 and 2010 financial statements for the two funds it administers—the Deposit Insurance Fund (DIF) and the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund (FRF). Also, in GAO’s opinion, although certain internal controls related to the DIF should be improved, FDIC maintained, in all material respects, effective internal control over financial reporting. Further, GAO did not find any reportable instances of noncompliance with provisions of the laws and regulations it tested.

The banking industry continued to recover in 2011 from the effects of the financial crisis and the recession of 2007-09. During 2011, 92 insured banks with combined assets of $36.6 billion failed. However, the losses to the DIF from failures that occurred in 2011 fell short of the amount reserved at the end of 2010. The aggregate number and size of institution failures in 2011—and their estimated cost to the DIF—were less than anticipated. As discussed in note 17 to the DIF’s financial statements, through April 11, 2012, 16 institutions have failed during 2012.

As of December 31, 2011, the DIF had a fund balance of $11.8 billion, and its ratio of reserves to estimated insured deposits was 0.17 percent. In contrast, at December 31, 2010, the DIF had a negative fund balance of $7.4 billion, and its ratio of reserves to estimated insured deposits was a negative 0.12 percent. The improvement was primarily attributable to assessment revenue earned in 2011, lower losses from bank failures in 2011 than projected at December 31, 2010, and a reduction in estimated losses from anticipated failures at December 31, 2011.

During 2011, FDIC continued its implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The act set a statutory minimum designated reserve ratio for the DIF of not less than 1.35 percent of estimated insured deposits, and requires that FDIC take such steps as necessary to achieve this reserve ratio by September 30, 2020. FDIC adopted a new restoration plan for the DIF in October 2010 in response to the act’s requirements, and in December 2011 adopted a final rule to maintain the designated reserve ratio at 2 percent.

During the 2011 audit, GAO identified deficiencies in controls over FDIC’s process for deriving and reporting estimates of losses to the DIF from resolution transactions involving shared loss agreements. These deficiencies resulted in errors in the draft 2011 DIF financial statements provided to GAO that went undetected by FDIC and that necessitated adjustments in finalizing the financial statements. While these deficiencies, individually and collectively, do not constitute a material weakness in internal control over financial reporting, they nevertheless increase the risk of additional undetected errors or irregularities in the DIF’s financial statements. Consequently, GAO believes they collectively represent a significant deficiency in FDIC’s internal control over financial reporting for the DIF. Additionally, GAO identified other less significant matters involving FDIC’s internal control over financial reporting that merit management’s attention.