

VIKRAM PANDIT'S MATERIAL MISTATEMENTS

It appears that Vikram Pandit's failure to disclose material problems with Citibank's valuation of its shitpile is another of the crimes we're supposed to look forward and ignore. Jonathan Weil looks at how one of the documents disclosed in the FCIC dump—a February 14, 2008 OCC report finding that Citibank's models for measuring the value of its shitpile were crap.

The gist of the regulator's findings: Citigroup's internal controls were a mess. So were its valuation methods for subprime mortgage bonds, which had spawned record losses at the bank. Among other things, "weaknesses were noted with model documentation, validation and control group oversight," the letter said. The main valuation model Citigroup was using "is not in a controlled environment." In other words, the model wasn't reliable.

That report was addressed to Vikram Pandit.

But eight days later, in the annual report that Pandit certified himself, Citibank made no mention of its shitpile valuation problems.

Eight days later, on Feb. 22, Citigroup filed its annual report to shareholders, in which it said "management believes that, as of Dec. 31, 2007, the company's internal control over financial reporting is effective." Pandit certified the report personally, including the part about Citigroup's internal controls. So did Citigroup's chief financial officer at the time, Gary Crittenden. The annual report also included a Feb. 22 letter from KPMG LLP,

Citigroup's outside auditor, vouching for the effectiveness of the company's financial-reporting controls. Nowhere did Citigroup or KPMG mention any of the problems cited by the OCC. KPMG, which earned \$88.1 million in fees from Citigroup for 2007, should have been aware of them, too. The lead partner on KPMG's Citigroup audit, William O'Mara, was listed on the "cc" line of the OCC's Feb. 14 letter.

Now, if DOJ actually want to jail a high level criminal, this is the kind of easy thing they ought to look into. And perhaps Pandit's failure to disclose Citi's problems modeling shitpile is one of the things FCIC referred to DOJ.

But I doubt it. Pandit's a former MOTU, after all, and MOTUs simply shouldn't be bothered with minor things like misleading stockholders.