

Office of Inspector General




September 12, 2000
Audit Report No. 00-039

Audit of the Dallas Field Operations
Branch's Subsidiary Inventory



DATE: September 12, 2000

MEMORANDUM TO: A. J. Felton
Deputy Director
Dallas Field Operations Branch
Division of Resolutions and Receiverships



FROM: Shirley C. Ward
Regional Director

SUBJECT: *Audit of the Dallas Field Operations Branch's Subsidiary Inventory (Audit Report No. 00-039)*

This report presents the results of the Office of Inspector General's (OIG) audit of the Division of Resolutions and Receiverships' (DRR) Dallas Field Operations Branch's (FOB) subsidiary inventory.¹ The audit addressed whether the Dallas FOB accounted for all subsidiaries owned by failed institutions in its geographic area of responsibility.

We performed the audit as a follow-up to our report entitled *Audit of the Northeast Service Center's Subsidiaries Inventory* (Audit Report No. 00-003, dated March 13, 2000) in which we found that the Northeast Service Center did not have a complete inventory of its subsidiaries. Because the Dallas FOB received and began managing the Northeast Service Center's subsidiary workload as of May 25, 2000, we initiated this audit to determine whether similar problems existed in Dallas.

An inventory system of record should include all items that it is designed to track. A complete inventory of subsidiaries helps ensure the proper management and disposition of each subsidiary. Management responsibilities include identifying the status of each subsidiary, performing asset searches to identify all assets owned by the subsidiary, upstreaming² discovered subsidiary assets, and preparing annual and final tax returns.

¹ The Resolution Trust Corporation (RTC) maintained its inventory of subsidiaries on the Subsidiary Information Management Network (SIMAN), which became the Federal Deposit Insurance Corporation's (FDIC) system of record for subsidiaries when the FDIC and RTC merged. Before the merger, the FDIC did not maintain a separate system of record for subsidiaries.

² Upstreaming is used to describe the posting of assets belonging to a dissolved subsidiary to the books of the subsidiary's parent failed financial institution receivership.

BACKGROUND

The Federal Deposit Insurance Corporation (FDIC) and the Resolution Trust Corporation (RTC)³ assumed control of the management and disposition of the assets of failed financial institutions.

In many cases, those failed financial institutions owned subsidiaries that provided diverse business services such as mortgage lending and servicing, real estate development and sales, insurance, credit cards, travel, and security sales and underwriting. The parent's financial statements show the subsidiaries as investments. Because subsidiaries maintained separate financial records, the subsidiaries' assets do not appear on the parent institutions' financial records. Subsidiaries' assets include not only assets owned directly by subsidiaries—such as real estate, cash, stocks, bonds, and mortgages—but also ownership interests in partnerships and joint ventures.

Subsidiaries were usually incorporated in states where they conducted business. The subsidiaries were required to file annual reports showing business activity and to pay annual incorporation fees as long as they existed as ongoing entities. Requirements for the dissolution of subsidiaries varied from state to state. Typically, if a subsidiary did not file an annual report or pay required fees, the cognizant state could involuntarily dissolve the subsidiary until reporting requirements were met. When a subsidiary ceased business activity, it could file a formal request for dissolution with the state where it was incorporated. Some states require subsidiaries to dispose of all assets and liabilities and have “zero dollar” balance sheets before dissolution, while other states do not have those requirements.

When the FDIC closed its service centers in Irvine, California; Atlanta, Georgia; and Chicago, Illinois; the Dallas FOB assumed responsibility for managing the remaining assets, including subsidiaries, from those offices. The subsidiaries are listed on the Subsidiary Information Management Network (SIMAN), the FDIC's system of record for subsidiaries. The FDIC March 2000 SIMAN report for the Dallas FOB contains 3,580 subsidiaries.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether the Dallas FOB, Asset Management Branch, Subsidiaries Unit had a complete inventory of subsidiaries belonging to failed financial institution receiverships in its geographic area of responsibility. To accomplish the objective, we interviewed officials from the FOB Subsidiary and Settlements Units, the Legal Division, and the Division of Finance's (DOF) Dallas Field Finance Center. We reviewed DRR's *Asset Disposition Manual* (as revised March 16, 1999) and all applicable memorandums. We reviewed reports from the consolidations of the three FDIC service centers in Irvine, Atlanta, and Chicago into the Dallas FOB. We did not review records of contractors that managed RTC subsidiaries or records from RTC receiverships because SIMAN was RTC's system of record and RTC officials had assured the FDIC that all subsidiaries were accounted for. Also, the audit of

³ As provided in the RTC *Completion Act of 1993*, the RTC went out of existence on December 31, 1995 and the FDIC took over its functions on January 1, 1996.

the Northeast Service Center's subsidiaries inventory revealed that the risk of subsidiaries not being on SIMAN was greater for FDIC institutions.

We determined that DOF and the Legal Division maintained auxiliary subsidiary inventory listings or databases to meet their own individual needs. In addition, the Dallas FOB provided us listings of subsidiaries from each of the three service centers (Atlanta, Chicago, and Irvine) that were closed and whose remaining work was folded into the Dallas FOB. We manually compared each auxiliary subsidiary listing to SIMAN to determine whether all subsidiaries were included in SIMAN. We obtained and reviewed Dallas FOB supporting documentation for the entities we identified from these auxiliary listings as not being on SIMAN. We also used corporate information files and various Internet databases to research the ownership of real estate and the incorporation status of subsidiaries.

We obtained from the Dallas FOB the state incorporation status reports for the subsidiaries that were not included in SIMAN. We confirmed this information by searching the LEXIS/NEXIS⁴ system. Other Dallas FOB data sources we used to substantiate the status of an entity included SIMAN's Subsidiary Information Detail Report, the Credit Notation System, RTC's Purchase Negotiation Inquiry, and FDIC's General Loan Inquiry.

We verified the disposition of the subsidiary and reviewed subsequent support information on a sample basis by having an independent third party conduct a similar search that yielded the same type of support documentation. Specifically, we had the FDIC Dallas Library Service perform data searches using LEXIS/NEXIS, CDB Infotek, and the Texas Business Comprehensive Report for information on the subsidiaries dissolved after April 1996 that we identified as not being on SIMAN.

We interviewed Dallas FOB officials regarding evidence of their asset searches using LEXIS/NEXIS, CDB Infotek, and Information America. To understand their asset search process, we reviewed a recently closed case file and the specific support documentation regarding asset searches. We also searched state databases available on the Internet to identify any unclaimed assets belonging to subsidiaries that were not on SIMAN. Finally, we interviewed FOB subsidiary and settlement officials regarding bank closing activities and the initial identification of subsidiaries during that process.

In addition to comparing the DOF and Legal Division auxiliary listings to SIMAN, we also attempted to identify subsidiaries that were not recorded on SIMAN by reviewing three different types of records. We reviewed the FDIC's bound closing books⁵ for 29 FDIC receiverships. These 29 receiverships included all 13 financial institutions closed from 1992 through 1995 that had a subsidiary listed on SIMAN and all 16 FDIC institutions closed after December 1995

⁴LEXIS is a full text legal services database that includes federal and state statutory, regulatory, and case law materials. NEXIS includes a large number of national and local business journals, wire services, and newspapers, including extensive back files, NAARS (a tax accounting database), and public record databases. We did not verify the information provided by LEXIS/NEXIS to state records.

⁵At the time of receivership, the DRR closing manager prepares a bound closing book, which is a list of assets held by the failed financial institution. It includes, but is not limited to, all official legal papers which address the Resolution, ProForma Statements, Purchase and Assumption Agreement, Initial Liability and Depositor register, and Loan Inventory of all assets retained by FDIC.

whether or not they had a subsidiary listed on SIMAN. We also reviewed FDIC settlement jackets⁶ for the eight receiverships that closed in 1999. Further, we reviewed all other pertinent institution records stored off-site for two judgmentally selected FDIC institutions that closed before 1997.

We did not evaluate the Dallas FOB system of internal controls over its subsidiaries inventory because the OIG concluded that the audit objective could be met more efficiently by conducting substantive tests rather than placing reliance on the internal control system. The OIG conducted the audit from March 2000 to June 2000 in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

The Dallas FOB does not have a complete inventory of all FDIC subsidiaries for its geographic area of responsibility. Specifically, the OIG identified 38 subsidiaries that were dissolved prior to 1997 but were not on SIMAN--the FDIC's system of record for subsidiaries. Dallas FOB officials knew these subsidiaries were dissolved or nearing final dissolution. Accordingly, Dallas FOB management decided not to record the subsidiaries in SIMAN. However, we believe that a system of record should include all items that it is designed to track. A complete inventory of subsidiaries is needed to ensure the proper management and disposition of each subsidiary. For example, we searched state Internet databases and identified 27 unclaimed accounts for these 38 subsidiaries. Normally, state Internet databases did not specify dollar amounts for these unclaimed accounts. However, in 20 instances we identified a value of approximately \$9,400 in total.

THE DALLAS FOB SUBSIDIARIES INVENTORY WAS NOT COMPLETE

We identified 38 subsidiaries dissolved prior to 1997 that were not recorded on the SIMAN. Of the 38 subsidiaries, 32 were identified by reviewing auxiliary subsidiary database listings, 1 was identified by reviewing institution bound closing books and 5 were identified by reviewing detailed receivership records stored in an off-site warehouse. Initially, we compared the auxiliary subsidiary databases used and maintained by DOF and the Legal Division as well as the service center closing subsidiary listings with SIMAN to identify potential subsidiaries that might not be recorded on SIMAN. This comparison identified 56 subsidiaries that were not recorded on SIMAN. However, this number was reduced to 32 subsidiaries after the Dallas FOB Subsidiary Unit provided documentation showing that 9 were either an asset or a receivership, and 15 were recorded on SIMAN but listed under another receivership name or identification number.

We determined that 21 of the 32 subsidiaries not recorded on SIMAN had been dissolved prior to April 1996. According to Dallas FOB Subsidiary Unit managers, these 21 were not added to the SIMAN because a DRR memorandum titled "Initial Loading of FDIC Entities into the

⁶Settlement jackets are the documented adjusted assets and liabilities for each balance sheet account of a failed institution as of the date of closing.

Subsidiary Information Management Network (SIMAN)," dated April 9, 1996, stated that by May 31, 1996:

All general information for corporations, trusts, associations, joint ventures and partnerships should be loaded individually for all unresolved Subsidiary and JVP entities in this phase of the project. (emphasis added)

We determined that the remaining 11 (of 32) subsidiaries not included in SIMAN were in the final dissolution process at the time of the RTC and FDIC merger in December 1995. According to Dallas FOB subsidiary management, a decision was made not to add these to SIMAN because for all practical purposes the subsidiaries were resolved.

To help us identify additional subsidiaries not recorded on SIMAN, we reviewed FDIC receivership bound closing books and settlement jackets. By reviewing these documents we identified one subsidiary that was not recorded in SIMAN. This subsidiary was dissolved June 30, 1994. (We note that all subsidiaries for the eight FDIC banks closed in 1999 had been identified and recorded in SIMAN.) We also selected, on a judgmental basis, two of the institutions, one of which was closed in 1992 and the other in 1996, and reviewed pertinent records (bound closing books, settlement jackets, and institution files) stored at an off-site warehouse. We identified five subsidiaries that were not listed in SIMAN. These subsidiaries were resolved before April 1996.

When we searched state Internet databases for unclaimed accounts associated with the 38 subsidiaries that were not recorded in SIMAN, we identified 27 unclaimed accounts. Twenty of the unclaimed accounts had an associated total dollar value of approximately \$9,400. Moreover, Dallas FOB managers have retrieved a database of all subsidiary entities that have been loaded into the Liquidation Asset Management Information System (LAMIS). LAMIS was installed as the FDIC's system of record during the mid-1980's for all assets in liquidation. The Dallas FOB will provide a copy of the inventory to the DOF Bank Account Control Unit (BACU) personnel to enable the BACU to conduct asset searches of unclaimed property that may be held by the states.

In a May 30, 2000 meeting, Dallas FOB managers said that the Subsidiaries Unit would update SIMAN to include the 11 subsidiaries that were resolved after the April 1996 memorandum was issued. Dallas FOB managers also stated that they will follow the policy established by the April 1996 Memorandum and, thus, do not intend to include in SIMAN the 27 subsidiaries that were resolved prior to that date.

CONCLUSION AND RECOMMENDATIONS

The Dallas FOB inventory of subsidiaries for its geographic area of responsibility was not complete. We identified 38 subsidiaries, all dissolved prior to 1997 that were not recorded on SIMAN. We determined that a total \$9,400 of unclaimed accounts exist for six of those subsidiaries. Although not material in value, these accounts indicate that other subsidiary unclaimed assets may exist that should be recorded and managed.

Without a complete inventory of subsidiaries, the Dallas FOB cannot ensure that it properly manages and disposes of subsidiaries and their assets. We believe that a complete inventory of subsidiaries is important because SIMAN has been designated as the system of record to control all financial accounting activity related to FDIC owned subsidiaries or at least those unresolved subsidiaries since April 1996. Because the property searches referred to earlier in this report may locate assets related to these subsidiaries, it seems appropriate to use SIMAN to capture this information. Accordingly, the OIG recommends that the Deputy Director, Dallas FOB, take the following actions:

- (1) Include the 38 subsidiaries identified during our audit in the SIMAN system. Once loaded into SIMAN, an asset search should be conducted for each subsidiary.
- (2) Coordinate with DOF's Field Finance Center, Bank Account Control Unit,⁷ in Dallas, Texas, to identify and recover unclaimed accounts being held by states' unclaimed property management offices that belong to subsidiaries of FDIC receiverships managed by the Dallas FOB.

CORPORATION COMMENTS AND OIG EVALUATION

On August 22, 2000, the Deputy Director, Field Operations Branch, DRR, provided a written response to the draft report. The response is presented in appendix I of this report.

DRR partially agreed with OIG's recommendation to include subsidiaries identified during the audit on SIMAN. On August 2, 2000, DRR added 10 subsidiaries that had not been dissolved prior to April 1996 to SIMAN. Additionally, DRR indicated that these subsidiaries were now dissolved and asset searches had revealed no assets or liabilities. DRR believed that the subsidiaries that had been dissolved before April 1996 did not need to be added to SIMAN according to the guidelines contained in the FDIC's April 9, 1996 memorandum entitled "Initial Loading of FDIC Entities into SIMAN."

DRR agreed with OIG's recommendation to coordinate with DOF's Bank Account Control Unit (BACU) to identify and recover unclaimed accounts that belong to subsidiaries. Subsidiary management has provided BACU a listing of subsidiaries, given them inquiry access to SIMAN, and agreed to notify them each time that a subsidiary is prepared for dissolution. Subsidiary management and BACU have also agreed to meet quarterly on an ongoing basis.

In a July 11, 2000 memorandum to the Audit Committee, the Director of the Office of Internal Control Management reported to the Audit Committee on the status of corrective actions related to OIG Audit Report No. A99-038, entitled *Audit of Abandoned Assets Held by States*'

⁷The OIG issued a report on September 3, 1999 entitled *Audit of Abandoned Assets Held by States' Unclaimed Property Agencies*, audit report number A99-038. Corporation comments to this report identify the DOF Bank Account Control Unit (BACU) as assuming the responsibility for research and recovery of abandoned and unclaimed funds belonging to FDIC/RTC.

Unclaimed Property Agencies. In this report, the OIG identified 3,945 accounts totaling \$3.3 million belonging to the FDIC or its receiverships that were being held by California's and Florida's unclaimed property agencies. In the memorandum, the director provided an observation that:

BACU has developed a database of all FDIC, FSLIC and RTC receiverships and has developed a database of all subsidiaries that were active from 1995 through today. Another database was developed that contains subsidiaries dissolved prior to 1995; however, this database is not inclusive of all subsidiaries dissolved before 1995. As such with an incomplete subsidiary database, BACU may fail to identify accounts belonging to FDIC.

The memorandum further recommends that DRR provide BACU with a listing of subsidiaries acquired from failed financial institutions that were dissolved between 1985 and 1995. The list can be derived from data contained in the Liquidation Asset Management Information System (LAMIS). Once BACU receives the list, they can update their own database.

We continue to believe that a system of record – which SIMAN has been designated – should include all entries that it is designed to track. Notwithstanding, the Corporation's response to the draft report provided the requisite elements of a management decision for both recommendations. Therefore, no further response to this report is necessary. Appendix II presents management's proposed action on our recommendations and shows that there is a management decision for each recommendation in this report.

CORPORATION COMMENTS

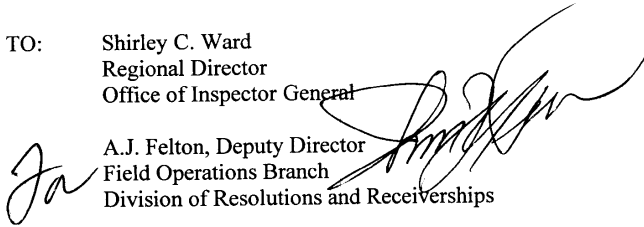


Federal Deposit Insurance Corporation
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Division of Resolutions and Receiverships

August 22, 2000

MEMORANDUM TO: Shirley C. Ward
Regional Director
Office of Inspector General

FROM:  A.J. Felton, Deputy Director
Field Operations Branch
Division of Resolutions and Receiverships

SUBJECT: RESPONSE TO OIG AUDIT NO. 2000-201
AUDIT OF THE DALLAS FIELD OPERATIONS BRANCH'S
SUBSIDIARY INVENTORY

The OIG recently completed a thorough review of the Dallas Field Operations Branch's Subsidiary Management Department inventory of subsidiaries. The official system of record for maintenance of subsidiary records is the Subsidiary Management Information Network (SIMAN), which was adopted by the FDIC from the Resolution Trust Corporation's (RTC) best practices project. The Federal Deposit Insurance Corporation (FDIC) memorandum dated April 9, 1996, entitled **Initial Loading of FDIC Entities into the Subsidiary Information Management Network (SIMAN)** provided guidelines for the initial upload of FDIC's subsidiary and joint venture/partnership entities into the SIMAN system. This memorandum set forth the criteria for which entities should be loaded into SIMAN and the timeframe by which this project was to be completed (attachment 1). The Dallas Field Operations Branch (DFOB), Subsidiary Management Department has used the April 9, 1996, memorandum as the official directive as to which entities were loaded into SIMAN. One of the primary instructions contained within this memorandum is to load to SIMAN all unresolved (those remaining as of April 9, 1996) FDIC subsidiary and joint venture/partnership entities by the deadline established as May 31, 1996.

In compiling its findings, the OIG concluded and recommended the following:

1. Include the 38 subsidiaries identified during our audit in the SIMAN system. Once loaded into SIMAN, an asset search should be conducted for each subsidiary. (Management has already begun action to record 11 of the 38 subsidiaries in SIMAN.)

RESPONSE: The OIG, through its own research and supplemental documentation provided by the Subsidiary Management Department, determined that 21 of the 32 subsidiaries not found to be in SIMAN were dissolved prior to April 1996. This would obviate the loading of the 21 entities that OIG was aware were dissolved prior to April 1996 per FDIC internal instructions to all Service Centers. Subsidiary Management was aware of the eleven (11) subsidiary corporations identified by the OIG;

Note: The attachments referenced in management's response have not been included in this report.

all Service Centers. Subsidiary Management was aware of the eleven (11) subsidiary corporations identified by the OIG, however, subsequent analysis reduced the total to ten (10) corporations not on SIMAN due to the fact that one of the 11 was actually in SIMAN under a similar but different name than that cited by OIG. Corrective action was taken on August 2, 2000 to add the ten (10) subsidiary corporations to SIMAN. Documentation is attached to support the addition of the ten (10) subsidiary corporations to SIMAN (attachment 2).

Subsidiary Management retrieved the dissolved subsidiary records for the ten (10) corporations dissolved shortly after April 9, 1996. During the Spring of 1996 when the Subsidiary Management Department was working on the project to load all remaining unresolved entities to SIMAN, it was determined by departmental management that given the substantial progress towards dissolving these 10 entities, that they would not be loaded to SIMAN as they were all but resolved. Of the 10 subsidiaries, asset searches were found for six (6) subsidiaries, no searches were noted for two (2) of the subsidiaries, and no file found for two (2) subsidiaries. As previously mentioned, all 10 of the subsidiary corporations have been added to SIMAN. Subsequent asset searches for the remaining 4 entities reveal no assets or liabilities for these dissolved entities (attachment 3).

2. Coordinate with DOF's Field Finance Center, Bank Account Control Unit, in Dallas, Texas, to identify and recover unclaimed accounts being held by states' unclaimed property management offices that belong to subsidiaries of FDIC receiverships managed by the Dallas FOB. (Management has already begun to search archived records for assets associated with subsidiaries.)

RESPONSE: The OIG Report addresses 27 accounts totaling \$9,400.00 that were identified as having funds held by the various states as unclaimed funds. DOF has a Bank Accounting Control Unit (BACU) that is continually searching for any unclaimed funds that may belong to any subsidiary, including previously dissolved subsidiaries. Prior to the commencement of this audit, Subsidiary Management had already begun a dialogue with BACU. Subsidiary Management provided BACU with a LAMIS download of all subsidiary entries in an attempt to complement BACU's listing of subsidiaries and also allowed BACU "Read" access to SIMAN.

Subsequent meetings between BACU and Subsidiary Management have resulted in an agreement for the two units to meet on an ongoing quarterly basis. During those meetings the two groups can share information and discuss progress being made towards retrieving unrecovered funds.

Additionally, Subsidiary Management will notify BACU each time a subsidiary is being prepared for dissolution. This notification will alert BACU to the fact that the sub is being dissolved and that a search for unrecovered funds would be in order. BACU will then report any identified items for recovery.

Subsidiary Management has designated James Hammett (Ph.# 972-761-8041) as the audit liaison.

Lastly, the management and staff of DFOB Subsidiary Management would like to commend the OIG Auditors in coordinating the audit and keeping the Subsidiary Management Department informed of their progress. There were bi-weekly meetings held which fostered an open dialogue and facilitated the flow of information and ideas. This process worked well and was mutually beneficial.

cc Donald Allen
Frank Campagna
Dick Fischman
Jim Forrestal
Rick Hoffman
Vernon Lynd
Tom O'Keefe
Gail Patelunas
John Recchia
Robert C. Russell

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider FDIC’s responses as management decisions in accordance with the act and related guidance, several conditions are necessary. First, the response must describe for each recommendation

- the specific corrective actions already taken, if applicable;
- corrective actions to be taken together with the expected completion dates for their implementation; and
- documentation that will confirm completion of corrective actions.

If any recommendation identifies specific monetary benefits, FDIC management must state the amount agreed or disagreed with and the reasons for any disagreement. In the case of questioned costs, the amount FDIC plans to disallow must be included in management’s response.

If management does not agree that a recommendation should be implemented, it must describe why the recommendation is not considered valid. Second, the OIG must determine that management’s descriptions of (1) the course of action already taken or proposed and (2) the documentation confirming completion of corrective actions are responsive to its recommendations.

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management’s written response to our report.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	Ten subsidiaries loaded on the Subsidiary Information Management Network (SIMAN) and asset searches performed.	Completed	SIMAN detail reports and asset search documentation	-0-	Yes
2	Bank Account Control Unit (BACU) notified of unclaimed funds and given list of subsidiaries to search for additional unclaimed accounts.	Completed	LAMIS download of subsidiary entities provided to BACU	-0-	Yes