

Office of Inspector General



October 31, 2000
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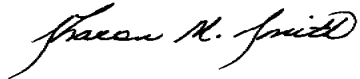
**Audit of Final Tax Returns for
Northeast Service Center Dissolved
Subsidiaries**



DATE: October 31, 2000

TO: Mitchell Glassman, Director
Division of Resolutions and Receiverships

Fred Selby, Director
Division of Finance



FROM: Sharon M. Smith
Assistant Inspector General

SUBJECT: *Audit of Final Tax Returns for Northeast Service Center Dissolved Subsidiaries*
(Audit Report No. 00-046)

This report presents the results of the Office of Inspector General's (OIG) audit of final tax returns for subsidiaries that the Federal Deposit Insurance Corporation's (FDIC) Division of Resolutions and Receiverships (DRR), Northeast Service Center (NESC), dissolved during calendar years 1996 through 1998. We performed the audit because of issues raised during our survey of the NESC's management of subsidiaries (audit number 1998-104). During that survey, we noted that the NESC was delinquent in filing subsidiary tax returns.¹ Because of that survey work, on December 7, 1998, the OIG issued a management letter informing NESC management that final tax returns were delinquent for 114 dissolved subsidiaries.

BACKGROUND

The FDIC and the Resolution Trust Corporation (RTC)² 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. Subsidiaries were usually incorporated in states where they conducted business and were required to file annual reports showing business activity and pay annual incorporation fees and federal and state taxes as long as they existed as ongoing entities.

¹Delinquent tax returns are those not filed by the statutory due dates.

²As 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 FDIC is responsible for preparing and filing federal and state tax returns for subsidiaries in the same manner as the parent institutions had done before failure. For example, for an institution that included subsidiaries on its federal tax return, the FDIC would continue to file a consolidated federal tax return. Similarly, for subsidiaries included in a parent institution's combined state tax return before failure, the FDIC would continue including those subsidiaries in the combined state tax return. However, for subsidiaries previously not included on the parent institution's consolidated federal and combined state tax returns, the FDIC would file stand-alone federal and state tax returns.

The FDIC is responsible for filing final federal and state tax returns in the year following a subsidiary's dissolution, except in the states of Pennsylvania, Rhode Island, and California, which require final tax returns before a subsidiary's dissolution.

The RTC maintained its inventory of subsidiaries on its Subsidiary Information Management Network (SIMAN). When the FDIC took over the RTC's functions in 1996, SIMAN became the FDIC's system of record for reporting its progress in resolving each subsidiary and related legal entity. Before assuming the RTC's remaining workload, the FDIC did not maintain a separate system of record for subsidiaries. In April 1996, DRR issued a memorandum that set forth criteria for loading FDIC subsidiary information into SIMAN. In April 1998, the NESC issued its SIMAN Data Stewardship Plans, Data Management Program, which defined SIMAN data elements and specified tests for ensuring the integrity of the data.

The FDIC's Division of Finance (DOF) completed a tax project in December 1996 that eliminated the nationwide backlog of known receivership and subsidiary tax returns. In October 1997, DOF consolidated the responsibility for all receivership and subsidiary tax functions into the DOF Tax Unit in its Dallas Field Finance Center. Previously, each FDIC consolidated office had its own DOF personnel that prepared tax returns and monitored contractors hired to prepare receivership and subsidiary tax returns. Further, before October 1997, DRR account officers were responsible for signing subsidiary tax returns. With the consolidation of the tax function in the DOF Tax Unit, the Corporation authorized selected DOF personnel to sign subsidiary tax returns.

After we issued our December 7, 1998, memorandum the NESC Subsidiary Department and the DOF Tax Unit implemented new procedures for filing the NESC's subsidiary tax returns. Under the new procedures, the NESC Subsidiary Department began submitting a quarterly Tax Turnaround Report to the DOF Tax Unit. The Tax Turnaround Report requested that DOF provide the latest tax information, including final filings of tax returns, for subsidiaries included in the turnaround report.³ The DOF Tax Unit agreed to research its files for any tax information on the subsidiaries that the NESC included in the report. When the DOF Tax Unit did not have any tax information in its files for a subsidiary, it sent letters to the IRS and various states' departments of revenue requesting the status of the tax returns. Generally, those revenue agencies did not respond to DOF's request for information. As agreed by the two parties, the DOF Tax Unit would not prepare final subsidiary tax returns until NESC account officers instructed it to do so.

³Before December 1998, the NESC generated a Waiting for Final Tax Return Report that listed NESC subsidiaries without a final tax return. DRR sent the report to DOF for informational purposes.

DRR's Asset Disposition Manual, dated November 1, 1995, defines DOF's responsibilities for subsidiary tax returns but not DRR subsidiary account officers' responsibilities. The manual states that DOF is responsible for filing timely and appropriate tax forms, returns, or reports; paying taxes; and providing DRR with periodic reports—upon request—on the status of state and federal tax return filings for subsidiaries. A service and agency agreement between the receiver and subsidiary states that DOF provides accounting services for the subsidiary, including the preparation of tax returns and tax advice, upon request.

OBJECTIVE, SCOPE, AND METHODOLOGY

The original objective of our audit was to determine whether the FDIC filed final tax returns for subsidiaries dissolved by the NESC. However, because the DOF Tax Unit was unsuccessful in obtaining responses from the IRS and various states' departments of revenue about the status of tax returns, our objective changed. Instead, we reviewed DOF Tax Unit files to determine whether the DOF Tax Unit had evidence that it had filed final federal and state tax returns for dissolved NESC subsidiaries. Our audit covered NESC subsidiaries dissolved between January 1, 1996, and December 31, 1998.

To accomplish our revised objective, we interviewed personnel from DRR's Office of Internal Review (OIR) and Subsidiary Department in Hartford, Connecticut, and Asset Policy Department in Washington, D. C. We also interviewed Legal Division personnel in Hartford, Connecticut, and DOF Tax Unit personnel in Dallas, Texas. To determine whether OIR had identified any tax return related issues during its annual reviews of subsidiary operations, we also reviewed OIR's 1998 and 1999 audit reports on subsidiary operations.

Using a SIMAN-generated list of the 286 NESC subsidiaries dissolved between January 1, 1996, and December 31, 1998, we reviewed DOF Tax Unit files for copies of final federal and state tax returns. Because some tax return copies were in storage, we also examined documentation that the DOF Tax Unit retrieved and subsequently provided. We determined whether each subsidiary filed a stand-alone or federal consolidated/state combined tax return. For the stand-alone returns, we determined whether the return preparer checked, marked, stamped, or wrote "final" on the return. For federal consolidated/state combined tax returns, we determined whether the subsidiary was listed on part III (Changes in Stock Holdings During the Year) of IRS Form 851 (Affiliations Schedule) or in the state equivalent of that form. Those forms show changes in subsidiary ownership such as dissolutions or write downs of assets, liabilities, and ownership equity to zero.

For the purpose of this report, we considered federal and state tax returns for subsidiaries to be final when FDIC file copies of "stand-alone" returns to the IRS or the states of incorporation were marked "final." We also considered returns as final when federal consolidated/state combined tax returns eliminated subsidiaries from part III of IRS Form 851 or its state equivalent on the tax returns immediately after the subsidiaries were included on those forms.

Our audit methodology differed slightly for the states of Pennsylvania, Rhode Island, and California if the DOF Tax Unit could not locate subsidiary tax returns marked “final.” Specifically, if the DOF Tax Unit could not locate returns for those states, we reviewed dissolution documentation for the subsidiaries because those states require a final tax return before issuing a dissolution certificate. For subsidiaries in those states, we accepted the dissolution documents in place of returns marked “final” as evidence that the DOF Tax Unit filed the required returns.

If it could not find a copy of a final tax return in its files, DOF referred us to spreadsheets developed as part of its 1996 tax return project. The objective of that project was to eliminate the backlog of known receivership and subsidiary tax returns. However, we did not accept notations on those spreadsheets as adequate evidence that DOF filed final tax returns. We also judgmentally reviewed the NESC’s subsidiary files for 15 of the 286 dissolved subsidiaries to determine whether DRR had copies of tax returns that DOF could not locate.

In addition, we performed some limited testing of certain SIMAN data fields (dissolution date, final tax return date filed, taxpayer identification number, and subsidiary name) to determine whether the NESC accurately reported tax information for dissolved subsidiaries in SIMAN. Specifically, we compared SIMAN’s final tax return date to the final tax return date in DOF’s records. We also compared the dates in SIMAN to DOF’s responses to the NESC’s August 1998 Waiting for Final Tax Returns Report and March 1999 and June 1999 Tax Turnaround Reports. We compared SIMAN’s dissolution date field to the applicable dissolution date listed in LEXIS/NEXIS⁴ for 160 of 346 subsidiaries.⁵ We also compared 30 corrections that the NESC subsequently made to the dissolution date field to the dissolution dates listed in LEXIS/NEXIS to verify corrections that NESC reported making. Finally, we tested all 1,640 NESC subsidiaries maintained in SIMAN to identify dummy tax identification numbers and duplicate names.

We did not evaluate the DOF Tax Unit’s or the NESC’s internal controls over filing final tax returns for dissolved subsidiaries. The OIG concluded that it could meet the audit objective more efficiently by conducting substantive tests rather than placing reliance on the internal control system. We visited the Dallas Field Finance Center in November 1999 and December 1999 and reviewed available tax records. We briefed DOF and DRR officials on January 18, 2000, on our preliminary findings and visited the Dallas Field Finance Center again in February 2000 to review additional information that the DOF Tax Unit had accumulated. Finally, the DOF Tax Unit mailed us copies of some tax returns and the spreadsheets developed as part of DOF’s 1996 tax project to support tax returns filed, which we received on April 6, 2000. We conducted the audit from October 1999 through April 2000 in accordance with generally accepted government auditing standards.

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.

⁵The 346 subsidiaries include the 286 subsidiaries that the NESC dissolved during calendar years 1996, 1997, and 1998 plus 60 subsidiaries that the NESC dissolved during calendar year 1999. However, at the time of our review, final tax returns were not due on the subsidiaries dissolved during 1999.

RESULTS OF AUDIT

DOF could not always provide clear evidence that it had filed final federal and state tax returns for the NESC's dissolved subsidiaries. Specifically, DOF could not locate 67 (23 percent) of the 286 final federal tax returns and 70 (25 percent) of the 286 final state tax returns for the subsidiaries that the NESC dissolved during calendar years 1996, 1997, and 1998. Table 1 summarizes the number of final federal and state tax returns for calendar years 1996, 1997, and 1998, for which the FDIC could not provide clear evidence that it filed tax returns.

Table 1: Final Tax Returns Not Found for the NESC's Dissolved Subsidiaries

Type of Return	Federal	State
Corporate	36	36
Partnership and joint venture	31	34
Total	67	70

Source: OIG analysis of DOF tax return copy files and additional documentation provided by the DOF Tax Unit.

If the FDIC does not file final federal and state tax returns for dissolved subsidiaries, the Corporation could incur additional liabilities (e.g., penalties and interest) and increased administrative burdens. Moreover, because DRR policy precludes the resolution of dissolved subsidiaries until the Corporation files final federal and state tax returns, the affected subsidiaries cannot be resolved.⁶

DOF Tax Unit officials gave several reasons why they could not provide adequate evidence that final tax returns were filed. Those reasons include:

- DOF or its outside contractors filed a final tax return before the subsidiary's dissolution and the relevant files were in storage.
- The NESC did not provide the DOF Tax Unit with sufficient information to file a final tax return (e.g., financial statements or prior tax returns).
- The NESC did not instruct the DOF Tax Unit to file a final tax return.

In reviewing the NESC's subsidiary files, we noted two other reasons why the DOF Tax Unit could not provide clear evidence that it filed final tax returns. Specifically:

- The NESC did not always sign and send to the appropriate taxing authorities the tax returns that DOF or its contractors had prepared. For example, on July 17, 1996, an outside tax preparer completed federal and state tax returns for a limited partnership.

⁶A subsidiary is "resolved" when the subsidiary has a zero balance sheet and DRR has a tax clearance certificate and dissolution certificate from the state of incorporation, which generally requires the filing of a final tax return.

However, the NESC did not file either tax return. We found the unsigned original tax returns in the NESC's subsidiary files.

- After NESC reinstated involuntarily dissolved subsidiaries, DOF did not prepare annual or final tax returns through the second dissolution date. For example, in 1992 an FDIC contractor reportedly filed final federal and state tax returns for a subsidiary.⁷ However, in May 1995, over 2 years later, the state of New York's Corporation Division informed the contractor that New York had involuntarily dissolved the subsidiary for failure to file tax returns and pay back taxes. The NESC then reinstated and dissolved the corporation in 1996.⁸ However, we could find no evidence that the FDIC filed annual tax returns for 1993, 1994, and 1995 or final tax returns for 1996. Further, it does not appear that the FDIC paid the back taxes.

FINAL FEDERAL TAX RETURNS NOT ALWAYS FOUND

DOF could not always provide clear evidence that it had filed final federal tax returns for the NESC's dissolved subsidiaries. Specifically, DOF tax return files did not contain final federal tax returns for 67 (23 percent) of the 286 subsidiaries that the NESC dissolved during 1996, 1997, and 1998. Of the 67 missing federal tax returns, the OIG reported 15 as delinquent in its December 7, 1998, management letter.

Of the 67 final returns that we could not locate, 31 were for partnerships or joint ventures. DOF Tax Unit officials stated that they did not have tax returns for 26 of the 31 entities because the FDIC was not the tax-matters partner.⁹ However, the DOF Tax Unit could not provide to the OIG the IRS Schedules K-1 or other correspondence to substantiate that the FDIC was not the tax-matters partner or evidence that it filed the appropriate tax returns. Furthermore, in response to DRR's Tax Turnaround Reports, the DOF Tax Unit had repeatedly notified the NESC that it had nothing in its files for 12 of the 31 partnerships and joint ventures.

FINAL STATE TAX RETURNS NOT ALWAYS FOUND

DOF could not always provide clear evidence that it had filed final state tax returns for the NESC's dissolved subsidiaries. Specifically, DOF tax return files did not contain final state tax returns for 70 (25 percent) of 286 subsidiaries that the NESC dissolved during 1996, 1997, and 1998. Of the 70 missing state tax returns, the OIG reported 19 as delinquent in its December 7, 1998, management letter.

⁷The DOF Tax Unit provided a memorandum from an outside contractor—instead of copies of the final tax returns—as evidence that final returns were filed.

⁸By mutual agreement, the state of New York allowed the FDIC to dissolve corporations before filing final tax returns.

⁹Partnerships subject to consolidation may designate a tax-matters partner who must be the general partner.

Of the 70 final returns that we could not locate, 34 were for partnerships or joint ventures. As with the federal tax returns, DOF Tax Unit officials stated that they did not have final tax returns for 26 of the 34 partnerships and joint ventures for which the FDIC was not the tax-matters partner.

DRR NEEDS TO IMPROVE ITS MANAGEMENT OF FINAL TAX RETURNS

DRR needs to improve its management of final federal and state tax returns for the NESC's dissolved subsidiaries. Specifically, DRR did not reconcile DRR and DOF databases and maintain copies of filed tax returns, and believed that DOF tax accountants should act autonomously. The SIMAN Data Stewardship Plans, Data Management Program for Subsidiaries, required DRR to annually reconcile DRR's tax information with information maintained by DOF in a DOF tax database. Such reconciliation should help identify situations where final tax returns are missing. Because the Asset Disposition Manual does not require DRR to maintain copies of tax returns in its subsidiary files, DRR did not retain backup copies of final tax returns. NESC officials believe that DOF tax accountants are the Corporation's tax experts and should act autonomously in filing tax returns. However, the DOF Tax Unit—acting under a service agreement—waits for instructions from a DRR account officer before preparing final subsidiary tax returns.

OTHER MATTERS

In addition to reporting that DOF could not always provide clear evidence that it had filed final federal and state tax returns for the NESC's dissolved subsidiaries, there are two other matters that we believe deserve management's attention. These matters involve (1) subsidiaries not included in SIMAN and (2) SIMAN data integrity.

Subsidiaries Not Included in SIMAN

On March 13, 2000, the OIG issued a report entitled *Audit of the Northeast Service Center's Subsidiaries Inventory*, which identified 429 subsidiaries that were not included in SIMAN. The NESC Regional Director disagreed with adding those subsidiaries to SIMAN but stated that the NESC provided a list of those subsidiaries to DRR's Dallas Field Operations Branch. On February 25, 2000, we provided the DOF Tax Unit with a list of the 429 subsidiaries, most of which were dissolved. Because final tax returns were not always prepared or filed for those dissolved subsidiaries included in SIMAN (the subject of this audit), the risk of tax returns not being filed for dissolved subsidiaries not included in SIMAN is also great. Accordingly, we believe that DRR should ensure that the DOF Tax Unit filed final tax returns for the 429 subsidiaries that we previously identified as not included in SIMAN.

SIMAN Data Integrity is Questionable

During our review of the NESC's final tax returns for the 286 subsidiaries included in SIMAN that were dissolved during 1996, 1997, and 1998, we noted that the data integrity of certain SIMAN data fields needs to be improved. Of 160 dissolution dates in SIMAN that we reviewed, 60¹⁰ did not agree with state records obtained through LEXIS/NEXIS. Of 293¹¹ NESC subsidiaries with final tax return filed dates shown in SIMAN, 142 had incorrect dates including 74 with "dummy" final tax return filed dates (e.g., 4/4/44, 5/5/55, and 1/11/1111). We also noted inaccuracies or inconsistencies regarding:

- "dummy" tax identification numbers (e.g., 77 plus financial institution number (FIN) plus 3 numbers) for 29 FDIC partnerships and joint ventures, 55 FDIC corporate subsidiaries, and 158 RTC partnerships and joint ventures;
- nine different subsidiaries with identical names but different financial institution or tax identification numbers (e.g., Lime Pyramid was listed in SIMAN under financial institution numbers 4459 and 4549).

When we pointed out the SIMAN data integrity problems, the NESC generally took immediate corrective action to (1) change dissolution dates shown in SIMAN to the date on the state dissolution certificate and (2) delete the duplicate subsidiary names.

CONCLUSIONS AND RECOMMENDATIONS

The NESC reported in SIMAN that it dissolved 286 subsidiaries during calendar years 1996, 1997, and 1998. Of those 286 subsidiaries, the DOF Tax Unit did not provide clear evidence that it filed final federal and/or state tax returns for approximately 24 percent. Accordingly, the FDIC faces potential risks related to not filing final tax returns. Those risks include additional tax penalties and interest, administrative burdens, and potential lawsuits. In addition, we noted that—as we concluded in an earlier report—429 NESC subsidiaries were not included in SIMAN. Finally, the data integrity of certain SIMAN data fields also needs to be improved. Accordingly, the OIG recommends that the Director, DRR, take the following actions:

- (1) Reconcile tax return information on the NESC's dissolved subsidiaries included in SIMAN to the DOF tax database.
- (2) Provide the DOF Tax Unit with filing instructions for the NESC's dissolved subsidiaries included in SIMAN for which DOF does not have final tax returns.
- (3) Research the 429 NESC subsidiaries not included in SIMAN and ensure that final tax returns were filed, as appropriate.

¹⁰Because we did not test the dissolution dates for all dissolved subsidiaries, there may be additional inaccuracies.

¹¹The 293 represents final tax return dates for all NESC subsidiaries included in SIMAN, not just those dissolved during 1996, 1997, and 1998.

- (4) Continue researching and correcting SIMAN data fields for final tax return filed dates, dummy tax identification numbers, states of incorporation, and duplicate entries related to the NESC's subsidiaries. (The NESC corrected some of those errors during our audit.)

CORPORATION COMMENTS AND OIG EVALUATION

On September 27, 2000, the DRR Deputy Director, Dallas Field Operations Branch (DFOB), and the DOF Deputy Director, Field Finance Center (FFC), provided a joint written response to a draft of this report. The Deputy Directors' response agreed with recommendation 1, 2, and 4 and disagreed with recommendation 3 in the draft report. Although the Deputy Directors disagreed with recommendation 3, the response provided the requisites for a management decision on all four recommendations. Appendix I to this report presents the Deputy Directors' response.

A summary of the Deputy Directors' response to recommendation 3 and our analysis follows. We did not summarize the response to recommendations 1, 2, and 4 because the actions planned or completed are responsive to those recommended.

Research the 429 NESC subsidiaries not included in SIMAN and ensure that final tax returns were filed, as appropriate (recommendation 3): The Deputy Directors disagreed with the recommendation. They stated that

DRR is responsible for ensuring that all subsidiaries dissolved after April 9, 1996 are loaded onto SIMAN, The 429 NESC subsidiaries referenced in the OIG report are subsidiaries dissolved prior to this date. In addition, DRR does not consider it cost beneficial to research and then load onto SIMAN data for subsidiary entities dissolved prior to . . . April 9, 1996 Therefore, DRR and DOF will not research the 429 subsidiaries for final tax return filings.

We do not agree with the Deputy Directors' response. We believe it is in DRR's best interest to research the subsidiaries to ensure that appropriate final tax returns have been filed because the FDIC is responsible for filing final tax returns for all subsidiaries, regardless of the dissolution dates.

Although we continue to believe that our recommendation has merit, DRR's and DOF's decision not to research the 429 subsidiaries for final tax filings meets the requirements for a management decision.

Appendix II presents management's proposed actions on our recommendations and shows that there is a management decision for each recommendation in this report.



Federal Deposit Insurance Corporation

1910 Pacific Avenue, 17th Floor, Dallas, TX 75201

Division of Resolutions and Receiverships

September 18, 2000

MEMORANDUM TO: Sharon M. Smith
Assistant Inspector General
Office of Inspector General

THROUGH: Mitchell Glassman, Director
Division of Resolutions and Receiverships

Fred Selby, Director
Division of Finance

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

James G. Thompson
Deputy Director Field Finance Operations
Division of Finance
Field Finance Center, Dallas, Texas

SUBJECT: RESPONSE TO OIG AUDIT No. 99-105
AUDIT OF FINAL TAX RETURNS FOR NORTHEAST SERVICE
CENTER DISSOLVED SUBSIDIARIES

The OIG recently issued to the Division of Resolutions and Receiverships (DRR) and to the Division of Finance (DOF) a discussion draft of the audit report on **Final Tax Returns for Northeast Service Center Dissolved Subsidiaries**. The review performed by the OIG was concentrated on the filing of final federal and state tax returns for subsidiaries, partnerships, and joint ventures for the years 1996 through 1998. The work encompassed a review of the data found in the Federal Deposit Insurance Corporation (FDIC) subsidiary inventory system of record, Subsidiary Information Management Network (SIMAN), which was adopted by the FDIC from the Resolution Trust Corporation's (RTC) best practices project. Pursuant to a memorandum dated April 9, 1996, entitled **Initial Loading of FDIC Entities into the Subsidiary Information Management Network (SIMAN)**, guidelines were provided for the initial upload of FDIC's subsidiary, and joint venture/partnership entities into the SIMAN system. The April 9th, memorandum set forth the criteria for which entities (including tax data field records) should be loaded into SIMAN and the timeframe by which this project was to be completed. The April 9th memorandum set forth the official directive for all of DRR, including the Subsidiary Management Department of the Northeast Service Center (NESC) as to which entities were to be loaded into SIMAN. One of the primary instructions contained within this

memorandum is to load into SIMAN all unresolved (those remaining as of April 9th, 1996) FDIC subsidiary and joint venture/partnership entities by the deadline established as May 31, 1996. Conversely, any entities resolved prior to the April 9th date, were not required to be loaded into SIMAN if they had not previously been so entered.

The OIG report states that the NESC dissolved 286 subsidiaries during calendar years 1996 through 1998. Of those 286 subsidiaries, DOF Tax Unit did not provide evidence, to OIG's satisfaction, that it filed final federal and/or state tax returns for approximately 24% of the entities. The report also addresses the 429 subsidiaries that the NESC did not include in SIMAN (see item 3 below for further discussion).

In compiling it's findings, the OIG concluded and recommended the following:

1. Reconcile tax return information on the NESC's dissolved subsidiaries included in SIMAN to the DOF tax database.

RESPONSE: DRR DFOB provided to DOF Tax Unit tax return data that is in SIMAN for all subsidiary, partnership, and joint venture entities dissolved from April 9, 1996 to current. Several months ago, DOF had provided to DRR Washington a database file for a one-time upload to SIMAN. The datafield for final tax return filing was then updated in both SIMAN and DOF's internal database systems. There will be ongoing dialogue between DRR DFOB Subsidiary Management and DOF Tax Unit to ensure that final tax returns are filed when appropriate after final dissolution of the subsidiary, partnership, or joint venture. Data reconciliation will be completed by November 30, 2000.

2. DRR is to provide the DOF Tax Unit with filing instructions for the NESC's dissolved subsidiaries included in SIMAN for which DOF does not have final tax returns.

RESPONSE: DRR will coordinate with DOF Tax Unit to identify subsidiaries, partnerships, and/or joint ventures that require final tax returns. The reason DOF did not file the proper final tax return for many subsidiaries is that NESC DRR staff loaded onto SIMAN dummy Tax Identification Numbers and inconsistent Dissolution Dates. DRR DFOB will attempt to find the appropriate tax identification number and dissolution dates and will provide this information to DOF to research the status of the final tax return. There are several other subsidiaries where DOF is waiting for DRR to request filing of a final tax return. DRR DFOB will address each specific item and will instruct DOF to file the final tax return if the proper information can be located. Research will be completed and closure brought to these issues by April 30, 2001.

3. Research the 429 NESC subsidiaries not included in SIMAN and ensure that final tax returns were filed, as appropriate.

RESPONSE: DRR is responsible for ensuring that all subsidiaries dissolved after April 9, 1996 are loaded onto SIMAN, as discussed above. The 429 NESC subsidiaries referenced

in the OIG report are subsidiaries dissolved prior to this date. In addition, DRR does not consider it cost beneficial to research and then load onto SIMAN data for subsidiary entities dissolved prior to the time frame established by the April 9, 1996 Memorandum. Therefore, DRR and DOF will not research the 429 subsidiaries for final tax return filings.

4. Continue researching and correcting SIMAN data fields for final tax return filed dates, dummy tax identification numbers, states of incorporation, and duplicate entries related to the NESC subsidiaries.

RESPONSE: DRR DFOB/Subsidiary Management performs a quarterly data certification/review by account officers to ensure that datafields in SIMAN are accurate and current. Now that the former assets/subsidiaries of the NESC are included in the DFOB SIMAN database, the quarterly data certification will help to ensure that all required datafields are accurate. As subsidiaries are dissolved, DRR will provide information to DOF to enable DOF to file the final tax returns. The next certification/review will begin at the end of the next quarter, September 29, 2000, and be completed within thirty (30) days thereafter.

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

cc Gail Patelunas
John Recchia
Dick Fischman
A.J. Felton
Jim Forrestal
Thomas O'Keefe
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Susan Brown
Vernon Lynd
Rick Hoffman
Donald Allen
Frank Campagna
James Hammett

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report on the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider the 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 that the FDIC plans to disallow must be included in management's response.

If management does not agree that it should implement a recommendation, it must describe why it does not consider the recommendation 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 management's responses on recommendations in our report and the status of management decisions. The OIG based the information for management decisions 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	The DRR Deputy Director, DFOB, and DOF Deputy Director, FFC, agreed with the recommendation and stated that data reconciliation will be completed by November 30, 2000.	11/30/00	Data reconciliation	\$-0-	Yes
2	The DRR Deputy Director, DFOB, and DOF Deputy Director, FFC, agreed with the recommendation and stated that DRR will instruct DOF to file final tax returns if proper information can be located.	04/30/01	Final subsidiary tax returns	\$-0-	Yes
3	The DRR Deputy Director, DFOB, and DOF Deputy Director, FFC, disagreed with the recommendation and stated that DRR and DOF will not research the 429 subsidiaries for final tax return filings because DRR does not consider it cost beneficial.	09/27/00	Deputy Directors' response	\$-0-	Yes
4	The DRR Deputy Director, DFOB, and DOF Deputy Director, FFC, agreed with the recommendation and stated that DRR performs quarterly data certifications to ensure that data fields in SIMAN are accurate.	10/29/00	DRR quarterly SIMAN data certification	\$-0-	Yes