Office of Inspector General

November 4, 2002
Evaluation Report No. 03-005

Evaluation of the FDIC's Corporate Readiness Plan

TABLE OF CONTENTS

DATE: November 4, 2002

TO: John F. Bovenzi, Deputy to the Chairman and
Chief Operating Officer

FROM: Russell A. Rau [Electronically produced version; original signed by Russell Rau]
Assistant Inspector General for Audits

SUBJECT: *Evaluation of the FDIC's Corporate Readiness Plan*
(Evaluation Report No. 03-005)

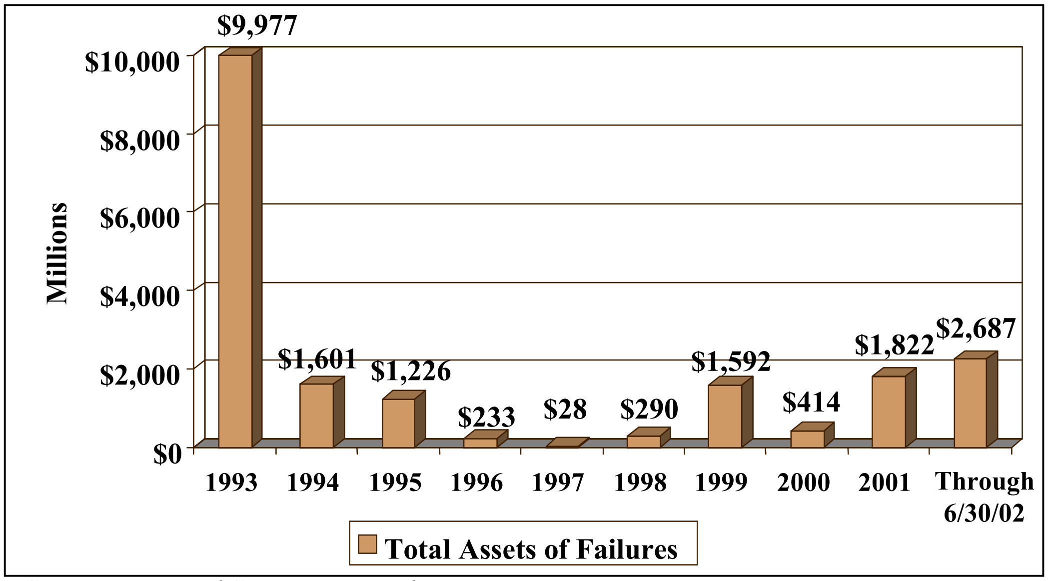
This report presents the results of our evaluation of the Federal Deposit Insurance Corporation's (FDIC) Corporate Readiness Plan (CRP or Plan). This Plan is the Division of Resolutions and Receiverships' (DRR) contingency plan for responding to a series of institution failures that would exceed DRR's capacity to address with its own resources. As designed, the Chief Operating Officer (COO) would be responsible for activating the CRP to provide DRR with additional temporary resources to handle a series of significant and unexpected institution failures.

The objective of our evaluation was to assess the reasonableness of the CRP. We focused on key Plan elements and underlying assumptions. We also determined the status of deliverables associated with the Plan's completion. We did not evaluate the sufficiency of DRR staffing levels. Details of our objective, scope, and methodology are included as Appendix I of this report. Appendix II contains a list of acronyms used in our report.

BACKGROUND

The number of insured depository institution failures has declined substantially from the unprecedented levels of the 1980s and early 1990s. In 1990, 382 insured depository institutions failed. By 1997, the number of failures reached a low point, with only one institution failing. Since then, the number of failures has increased slightly (e.g., eight failures thus far in 2002). Figure 1 presents historical information about failed institution assets over the past decade.

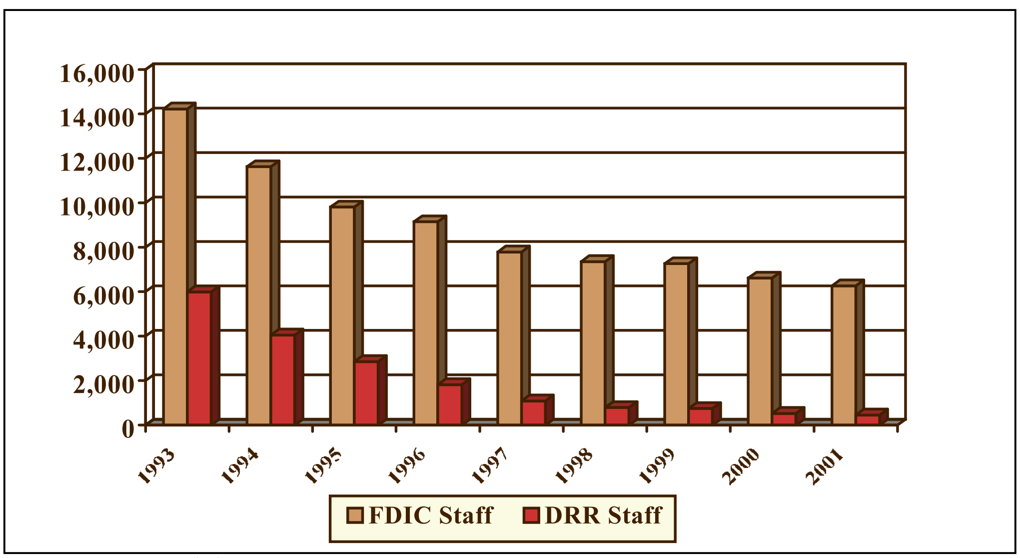
Figure 1: Failed Institution Assets, by Year



Source: *Historical Statistics on Banking*

The number of FDIC employees dedicated to resolution and receivership functional areas has also declined significantly from a high of 5,989 staff in 1993 to 451 staff at the end of 2001, a 92 percent decline. Figure 2 shows how the staff assigned to resolution and receivership functions has decreased over the past decade.

Figure 2: Annual Total FDIC and Resolution and Receivership Staffing Levels



Source: DRR Activity Report –2001.

While the number of failures and DRR staffing has decreased, some recent failures have presented unique or difficult circumstances, which required significant DRR or contractor resources. For example, Hamilton Bank, N.A., required a closing team of 128 DRR staff, due to the bank's numerous branch locations.[1] Other resolutions have required specialized contractor

[1] Hamilton Bank, N.A. closed on January 11, 2002 with total assets of $1.4 billion.

resources to perform certain functions, such as the servicing of credit card portfolios[2] required under the NextBank resolution.[3]

DRR began contingency planning in the mid-1990s, primarily in preparation for the Year 2000 date change. In 1999, DRR conducted its *Firehouse Planning Analysis* (Firehouse Analysis) to develop organizational structures and staffing levels needed to handle the resolution and closing of institutions in the future. Also in 1999, the FDIC Board of Directors granted expenditure authority for a contracting framework to address resolution and receivership contracting needs for the next 5 years. However, DRR also identified a need for temporary resources in the event of a series of significant and unexpected bank failures until the FDIC could get contractors in place and operating efficiently. DRR developed the CRP as a contingency plan to address this need.

The FDIC assigned the CRP project to a Readiness Task Group (RTG)[4] to: (1) determine if sufficient internal resources exist within the FDIC to effectively respond to a significant and unexpected increase in failure activity and (2) identify how those resources would be deployed to assist DRR. DRR formalized the Plan as a Corporate Operating Plan System (COPS) project.[5] The project has six deliverables and was completed in September 2002. Table 1 presents steps that the RTG took in developing the Plan.

Table 1: Corporate Readiness Plan Methodology

Plan Methodology
• Analyzed workload requirements and staffing shortfalls under three institution failure scenarios.
• Performed a skill set analysis of DRR and non-DRR positions to identify comparable skills required for DRR functions within other divisions and offices.
• Worked with other divisions to identify measures for making non-DRR staff available to assist DRR on a short-term basis (i.e., not to exceed 90 days).
• Researched the possibility of rehiring former FDIC employees under individual contracts to provide DRR with augmented resources without impacting the FDIC's supervision mission.

Source: Corporate Readiness Plan.

The RTG concluded there were sufficient resources available to assist DRR on a short-term basis until DOA and DRR could get contractors hired and in place. Most of those resources would come from the Division of Supervision and Consumer Protection (DSC) and would be available for no more than 90 days. Appendix III contains a flowchart of how staff would be deployed and managed in the event that the Plan was activated. Table 2 presents the overall Plan conclusions.

---

[2] Credit card servicing includes activities such as processing, collecting, and recording account payments; issuing replacement cards; and processing and mailing cardholder statements.
[3] NextBank closed on February 7, 2002 with total assets of $700 million.
[4] The RTG was an interdivisional task force led by the Division of Supervision (DOS), with representatives from the DRR and the Division of Compliance and Consumer Affairs (DCA). The FDIC merged DOS and DCA into the Division of Supervision and Consumer Protection (DSC) on June 30, 2002.
[5] COPS is an FDIC system for tracking FDIC projects related to corporate strategic areas, goals, and objectives.

Table 2: Corporate Readiness Plan Conclusions

Plan Conclusions
• In terms of both the skills and volume of available personnel, the FDIC has sufficient resources to successfully respond to a significant and unexpected increase in institution failures.
• Effective prioritization and deferral of divisional workloads will be crucial in providing assistance to DRR on an interim basis while it activates its longer term strategies for augmenting its personnel with contractors, term and temporary employees, and other resources.
• The timely deployment of available resources to DRR will be essential to fulfill all FDIC strategic program areas.
• Plan implementation may present substantive risks if significant resources are diverted from other mission-critical functions for an extended period of time.

Source: Corporate Readiness Plan.

RESULTS IN BRIEF

The CRP is reasonable and provides sufficient flexibility for the FDIC to handle a relatively wide range of institution failures without causing significant disruption to other aspects of the Corporation's mission. Based on our evaluation work, we reached the following conclusions:

- The Division of Administration (DOA) has a contracting framework in place for addressing current and future resolution and receivership activity, and DOA has awarded contracts timely under that framework to assist DRR with institution failures occurring during our period of review (2001 and 2002).

- Institution failure scenarios developed to determine CRP staffing requirements were reasonable and based on historical FDIC experiences.

- The RTG employed a reasonable methodology for assessing staffing needs and in determining a staffing gap.

- DSC is committed to providing staff to DRR on a temporary basis in the event of CRP activation. Further, DRR and other FDIC divisions have established headquarters and regional points of contact for implementing the Plan, and DRR has developed an automated system to manage and track staff assigned to assist with closing activities.

- DRR has developed a cross-training program for all DRR staff and non-DRR staff assigned to assist with resolutions. DRR's plans to ensure that employees receive the required training are on track and reasonable.

- DRR needs to further research the possibility of rehiring former FDIC employees under individual contracts. Such contracts would have to be carefully structured to avoid the use or appearance of personal services contracts which are prohibited.

We verified that DRR completed the COPS project in September 2002. DRR conducted a readiness simulation with Plan participants and briefed the FDIC Operating Committee on Plan features. DRR intends to periodically test the Plan and make changes as necessary. We support DRR's efforts to periodically update the Plan and encourage DRR to ensure that the CRP reflects current staffing resources and levels of commitment from other divisions, such as DSC.

REVIEW OF KEY ELEMENTS, PLAN ASSUMPTIONS, AND COPS DELIVERABLES

We identified key Plan elements that we considered vital to the CRP's conclusions and success, if activated. We characterized the following as key Plan elements:

- Contracting Framework
- Readiness Scenarios
- Methodology for Determining and Assessing Staffing Gap
- Training Program
- Plans to Use Former Employees

We assessed the reasonableness of each of the above key elements. We concluded that these key elements were in place. Detailed discussions of each element are included in the body of this report.

The RTG made a number of assumptions in developing the Plan. We concluded that those assumptions were reasonable. Finally, we also verified that DRR had completed each of the COPS deliverables. Appendix IV contains the results of our review of the Plan assumptions and COPS deliverables.

Contracting Framework

The most critical element to the FDIC's readiness is its ability to quickly hire contractors to assist with resolution and receivership activities. The CRP is based on the FDIC having contractors in place within 90 days of CRP activation. Thus, the quicker the FDIC can engage private sector resources, the less impact CRP implementation would have on non-DRR functions. We verified that the FDIC has a reasonable contracting framework in place for resolution and receivership activities. Further, the FDIC has signed agreements with contractors for selected engagements. We concluded that DOA was able to award contracts, on average, in about 16 days under this framework to assist DRR with failures occurring during 2001 and through June 30, 2002.

In July 1999, the FDIC Board of Directors granted expenditure authority of approximately $509 million to award 31 contracts covering a 5-year period (1999 Board Case). The contracts were to advise and support the franchise and asset sales efforts for failed institutions, service and maintain assets until they could be sold, and support receivership activity. The 1999 Board Case granted expenditure authority for contracts falling into two categories:

- Core-related: $460 million for contracts required to support work in process and to address estimated core workloads[6] and

- Contingency-related: $49 million to award contingent contracts that would be needed immediately if failures unexpectedly increased in size or number.

Twenty-three of the 31 contracts replaced existing DRR contracts. Further, 61 percent of the core-related amount represented direct expenses for asset servicing, particularly owned real estate expenses such as maintenance, taxes, and insurance, that would be incurred regardless of whether the assets were managed or serviced in-house or through contracts. Table 3 presents 5-year expenditure authority amounts for the contracts approved in the 1999 Board Case.

Table 3: 5-Year Contract Expenditure Authority Amounts

Contract Description	*Core Related*	*Contingency Related*	*Total*
Owned Real Estate Property Management	$ 179	$ -	$ 179
Owned Real Estate Pool Management	122	-	122
Investment Banker	-	24	24
Property Tax Consulting Services	22	-	22
Financial Advisory Services for Securities Portfolios	20	-	20
Phase I Environmental Services	17	-	17
Field Imaging Services	17	-	17
National Residential Mortgage Loan Servicer	12	-	12
Loss Share Assistance	-	11	11
Asset Data Standardization Services	9	-	9
Environmental Advisory Services	8	-	8
Receivership Assistance Contract	-	8	8
Commercial and Industrial Loan Servicing	-	4	4
Failed Institution Staffing	-	2	2
Other	54	-	54
Totals	**$ 460**	**$ 49**	**$ 509**

Source: July 1999 Board Case.

The 1999 Board Case also included a schematic depicting where each contract fits in the resolutions and receivership process. That schematic is presented in Appendix V. We focused our evaluation work on contingency-related contracts occurring at the time of resolution, such as the Failed Institution Staffing and Field Imaging Services contracts and the Receivership Assistance Contract (RAC).

[6] The Division of Insurance and Research (DIR) develops a range of corporate workload assumptions annually, which are used for core workload and staff planning. DRR typically staffs towards the lower end of the core workload range and uses the high end of the workload range to estimate its potential contracting needs and expenses. This annual planning process is a cornerstone for the FDIC budget.

Basic Ordering Agreements

The 1999 Board Case supported the use of standard statements of work (SOW) and Basic Ordering Agreements (BOA) to ensure that contractor resources were available when needed. A BOA is a written agreement between the FDIC and one or more firms and is used to respond to multiple orders for contracts with requirements that are generally similar in nature and repetitive. The BOA contains terms and conditions that will apply to FDIC-issued task orders, a description of the services to be provided, and the method for the pricing and issuing of orders under the agreement. A BOA is not a contract, because it does not contain consideration or require that the FDIC place any orders against it. The FDIC issues task orders against the BOA when and if a need for contract services arises. We verified that DOA awarded BOAs for most of the contingency-related contracts proposed in the 1999 Board Case. Table 4 presents information about selected BOAs.

Table 4: Contingency-Related Contracts with BOAs

Contract Description	*Award Date/Term*	*Awardees*	*Task Orders Awarded*
Failed Institution Staffing	December 1999 One base year, four 1-year options	4	2
Field Imaging Services	March 2000 Two base years, three 1-year options	2	0
Receivership Assistance Contract	December 1999 Three base years, two 1-year options	7	7

Source: Review of DOA information.

DOA has awarded two task orders under the Failed Institution Staffing contract. The largest was a $32 million task order associated with the NextBank failure, to screen, hire, and manage 600 failed institution personnel to continue servicing NextBank's credit card portfolios. To date, DOA has not awarded any task orders under the Field Imaging Services contract.

DOA awarded BOAs to seven firms for the RACs. DOA also awarded one task order to each firm for the purpose of providing mandatory training sessions to selected key and/or senior contractor personnel. To date, the FDIC has not issued RAC task orders for resolution activities associated with a particular institution resolution.

The 1999 Board Case identified the RAC as an essential resource that could be used to quickly leverage current staff to handle workloads above core estimates and to provide skills that may be needed for unusual assets or situations. The RAC is a multi-purpose contract covering all activities related to an institution closing. Closing activities fall within two major areas of responsibility: receivership management and financial management, as shown in Table 5. RAC task orders would address one or more of the functional areas presented in Table 5 depending on the staffing needs of the particular resolution.

Table 5: Receivership Assistance Contract SOW

Receivership Management	*Financial Management*
Settlement Services	Pro Forma
Claims Services (Creditor and Depositor Claims)	Asset Servicing
Asset Management Services	Conversions • FDIC External Servicer • FDIC National Processing System
Administrative Services	
Branch/Loan Production Office Services	
FF&E, Facilities, Personnel	Post Resolution Operations Management • Cash management • Cash disbursements (Accounts Payable) • Interim servicing
Records Management	
Ombudsman/Customer Service	
Investigations Support	
Systems Services	

Source: OIG review of RAC SOW.

DOA and DRR have also established an oversight management program. Usually, the DRR Receiver-in-Charge for the closing will be the oversight manager (OM) for the RAC contract. We verified that DRR has a monitoring plan in place for the RAC contractors. The monitoring plan includes a requirement for the OM to contact RAC awardees—regardless of whether they have been awarded a task order—at least quarterly to confirm the firm's status and make sure key personnel are still employed and available.

Delegations of Authority

In June 2002, the FDIC Board of Directors extended the DRR Director's contract expenditure authority from $2 million per contract to 5 percent of the failed institutions' total assets. Total assets are defined, per this expenditure authority, as the amount reflected on its most recent Call Report at the time the Director (or designee) requests contracting actions from the DOA under this authority. DOA and DRR staff informed us that this increase was needed and should allow DRR to be more strategic in designing resolution strategies. We agree that tying the DRR Director's delegated authority to the size of a particular resolution will provide the Director with more flexibility in determining how best to resolve the failure.

Contracts Awarded for Specific Failures

We concluded that DOA has been able to quickly award contracts associated with institution failures. We worked with DOA staff to identify contract services required for institution failures occurring between January 1, 2001 and June 30, 2002. We concentrated our review on contracts resulting from the 1999 Board Case. Table 6 provides contract award time frame information about contracts associated with individual failures.

Table 6: Contract Award Time Frames

Contract /Task Order (Description of Svs)	*Date Awarded*	*Elapsed Days to Award*	*Compensation Ceiling*	*Failed Institution Involved*
Individual Contracts				
Financial Advisory Services	2/11/02	31 days	$15 million	NextBank
Investment Banker	1/04/02	25 days	$5 million	Hamilton Bank
Financial Sales Advisor	12/27/01	17 days	$5 million	Hamilton Bank
Financial Advisory for Securities Portfolios	8/13/01	12 days	$5 million	Superior Bank (a)
Basic Ordering Agreements				
Failed Institution Staffing (BOA—Task Order Awarded)	2/20/02	4 days	$32 million	NextBank
Failed Institution Staffing (BOA—Task Order Awarded)	5/28/02	4 days	$600,000	Superior Bank

Source: OIG review of contract files.
Note a: Superior Bank, Federal Savings Bank, failed on July 27, 2001 with total assets of $1.8 billion.

We concluded, on average, that DOA was able to award contracts within 16 days of issuing a request for proposal. We also verified that DOA followed selected APM requirements for those contracts, such as developing a solicitation list, responding to offeror questions, and convening a technical evaluation panel for making a best value determination. Based on DOA's historical experiences in awarding contracts, we concluded that DOA's contracting framework provides a responsive and flexible resource for addressing future DRR contracting needs. However, the ultimate success of the contracting framework will be dependent on the quality of contract work received. Therefore, an emphasis on a strong oversight management program is critical.

Readiness Scenarios

The Division of Research and Statistics (DRS)[7] prepared three institution failure scenarios to test the ability of the FDIC to respond to various levels of stress. The institution failure scenarios were based in part on historical experience and on Financial Risk Committee (FRC)[8] data. DRS designed the scenarios to be realistic given a specific number of failures, amount of failed institution assets, and deterioration of CAMELS ratings.[9]

We interviewed the official who prepared the failure scenarios to understand the methodology for each scenario. We also reviewed documentation supporting scenario assumptions. Each failure scenario employed 1999 FRC projections that equated to about 14 institution failures annually and the following events:

- Scenario I was a 2-year scenario which tested the FDIC's ability to respond to the FRC projections of 14 failures plus one large institution failure with assets of around $2.5 billion occurring in year 2. DRS researched historical institution failures and used information from

[7] On June 30, 2002, the Division of Insurance merged with DRS to become the Division of Insurance and Research.
[8] The FRC is an internal committee comprised of staff from DIR, DSC, DRR, and the Division of Finance. Among other things, the FRC develops projections of failed assets of insured institutions.
[9] Uniform Financial Institutions Rating System. CAMELS is an abbreviation for Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk.

Cititrust, a state non-member bank that failed in 1991. DRS inflated Cititrust's balance sheet to 1999 dollars, which yielded total assets of $2.3 billion.

- Scenario II was also a 2-year scenario, which tested the FDIC's ability to respond to a concentration of failures in a relatively short period of time. DRS researched the historical frequency of institution failures to identify a situation where the FDIC experienced an uneven distribution of failures across a particular year. During 1994, the FDIC experienced 15 institution failures, 13 of which occurred in the 2nd and 3rd quarters of the year. DRS used the balance sheet assets from the 15 failures occurring during 1994 as the workload for scenario II.

- Scenario III was a 4-year scenario which simulated a major regional downturn in the real estate sectors of seven metropolitan statistical areas (MSAs). This scenario was based in large part on the real estate recession that took place in New England during the early 1990s. DRS identified seven depressed MSAs using actual real estate trend data. DRS then used a real estate stress test model to predict future CAMELS ratings for existing institutions in those seven MSAs. Finally, DRS assigned a failure rate based on the FDIC's historical experience during the New England crisis.

Table 7 compares the characteristics of each of the three failure scenarios.

Table 7: 1999 FRC Projections and DRS Scenarios Used in the Corporate Readiness Plan

Projection/ Scenario	***Description***	***Year***				***Total Failures***	***Total Assets (in Billions)***
		1	***2***	***3***	***4***		
FRC	1999 Financial Risk Committee Projections: --$2 billion in Bank Insurance Fund failures --$750 million in Savings Association Insurance Fund failures	14	14	-	-	28	$ 2.75
I	Impact of the failure of a large bank: --FRC projections in year 1 --One $2.3 billion failure in year 2	14	15	-	-	29	$ 5.09
II	Impact of a concentration of failures in one quarter: --FRC projections in year 1 --Historical 1994 failures in year 2	14	15	-	-	29	$ 2.67
III	Impact of a regional real estate downturn: --FRC projections in years 1, 2, 3, and 4 --41 failures in year 4 associated with a real estate downturn	14	14	14	51	93	$ 16.45

Source: Corporate Readiness Plan, DRS supporting file documentation.

The FDIC's Division of Insurance and Research (DIR) develops annual workload projections that divisions such as DRR use to determine core staffing needs. We compared the CRP scenarios to current FDIC Corporate Workload Assumptions to assess whether the CRP scenarios were reasonable and remain valid in light of the FDIC's current institution failure projections. Table 8 presents the FDIC's Corporate Workload Assumptions for 2003 through 2007. We concluded that the number of institution failures contemplated under CRP Scenarios I and II were within the projected institution failure levels. For example, Scenarios I and II assume 14 to 15 failures per year, which is consistent with the Corporate Workload Assumptions presented in Table 8.

Table 8: Corporate Workload Assumptions for 2003-2007

Year	*Projected Failures*	*Total Assets ($ in Millions)*
2003	16	$5,883
2004	15	$6,125
2005	15	$6,500
2006	15	$6,750
2007	14	$7,063

Source: Division of Insurance and Research.

In addition, we reviewed DSC's 8-Quarter report, covering the period July 1, 2002 through June 30, 2004, to understand DSC's projected failure activity.[10] Due to its confidential nature, we are not presenting detailed information about the 8-Quarter report projections in this report. However, the report identified two large institutions as a having a medium probability of failure during 2003. The failed assets associated with those two institutions would exceed the failed assets total of $16 billion presented in Scenario III as well as Scenario I, which modeled the impact of a large institution failure. With the exception of these two institutions, the projected number of failures and corresponding asset balances listed on the 8-Quarter report were within the levels considered under Scenarios I, II, and III. DRR indicated that it is working on separate initiatives to address the resolution of large institution failures.[11] We did not review those separate initiatives as part of our evaluation.

Methodology for Determining and Addressing Staffing Gap

The RTG processed the readiness scenarios through an internal staffing model to determine staffing needs and calculated a staffing gap that would need to be addressed by non-DRR resources. The RTG analyzed all positions within the FDIC, identified those with skill sets compatible with DRR functions, and outlined a process for temporarily deploying resources from other FDIC Divisions to address the staffing gap. DRR also established headquarters and regional points of contact in each Division, developed a tracking system for monitoring resolution staffing assignments, and determined the level of training that non-DRR staff would require. The RTG performed a simulation of the CRP in September 2002.

DRR's Firehouse Analysis

In 1999, DRR published its Firehouse Analysis, which developed DRR staffing projections and organizational structures for handling the resolution and closing of institutions in the future. The Firehouse Analysis employed a staffing model based on DRR's historical experience in resolving institutions of various sizes to estimate quarterly staffing levels for DRR functional areas. The

[10] The 8-Quarter report lists those institutions that DSC assigns a low, medium, or high probability of failure over the next 8-quarter time frame. Any institution on this list has a greater than 50 percent probability of failing over the next 8 quarters. DSC updates the 8-Quarter report on a weekly basis.

[11] Those initiatives include DRR's contingency planning efforts for large banks and the megabank project.

model also employed workload factors to optimize the use of human resources, account for the fungibility of staff, and reflect economies of scale as asset balances increased. The Firehouse staffing level included 251 staff related to DRR's four major functional areas—resolutions, asset marketing, asset management, and receivership operations—that would be required to resolve a given number of failures.[12] DRR indicated that it could provide up to 10 closing teams with this staffing level and deploy those teams concurrently. Prior to requesting staff from other divisions, DRR would maximize its supply of available staff by temporarily delaying work on non-closing functions.

Corporate Readiness Plan Staffing Gap

The RTG used the Firehouse staffing model to estimate CRP staffing requirements. The RTG ran the model using the DRS failure scenarios discussed in Table 7 to arrive at estimated quarterly staffing needs. The RTG then subtracted out DRR's Firehouse staffing level to arrive at a "staffing gap." This staffing gap represented the non-DRR resources required to resolve the scenario failures. The RTG determined the staffing gap for each quarter of the period of analysis. Table 9 presents, for each scenario, the RTG's staffing projections for the quarter with the greatest staffing gap.

Table 9: Analysis of Staffing Gap

Scenarios	*Peak Staffing Gap*	*Full-Time Equivalent Staffing Gap*
I	351	288
II	618	371
III	1,576	1,234

Source: DRR supporting documentation.

The Peak Staffing Gap column in Table 9 represents the staffing gap assuming the worst case scenario that all failures occurred on the first day of each quarter. DRS determined that it was highly improbable that all failures would occur on the same day. Accordingly, the RTG also calculated a Full-Time Equivalent (FTE) Staffing Gap estimate to optimize staffing on a quarterly basis. The FTE staffing estimate recognizes that resolutions staffing needs would decline as DRR activities subside throughout the quarter.

Non-DRR Staffing Commitments

The RTG performed an analysis of DRR closing functional areas and non-DRR position descriptions to identify comparable skills within other FDIC Divisions and Offices. The analysis was centered on the four primary DRR functional areas: resolutions, asset marketing, asset management, and receivership operations. The RTG determined that non-DRR staff would not fill certain functions, such as Receiver-in-Charge and Closing Manager, which required substantial training and experience. The RTG identified 98 position descriptions that possessed

[12] The Firehouse Analysis was based on an estimated annual failure rate of three small institutions ($50 million each in total assets) and one large institution failure ($1 billion in total assets).

compatible skill sets for performing DRR functions. Most of those positions were in DSC and DOA.

The RTG discussed the Plan with division and office managers and determined, in a crisis situation, that 1,407 non-DRR staff could be made available to assist DRR on a temporary basis. However, DSC-Risk Management reduced its staffing commitment by 54 staff in March 2002 and DSC-Compliance reduced its staffing commitment by 133 staff in October 2002, bringing the revised total non-DRR staffing commitment to 1,220 staff. We concluded that the 1,220 staff would be sufficient to address the staffing gap requirements for Scenarios I and II and would be within 14 staff of the FTE staffing gap under Scenario III. The revised staffing commitment would not be sufficient to meet the peak staffing gap requirements under Scenario III; however, DRS determined that this scenario was highly improbable. Table 10 presents a breakout of the 1,220 staff by division.

Table 10: Internal Resource Availability

Division	*FTEs Available for 90-days*	*Percentage of Total*
DSC-Risk Management (formerly DOS)	734	60%
DSC-Compliance (formerly DCA)	166	14%
DOA	149	12%
Division of Information Resources Management	100	8%
DIR (formerly DOI and DRS)	53	4%
Office of the Ombudsman	11	1%
Office of Internal Control Management	7	1%
Total	**1,220**	**100%**

Source: Corporate Readiness Plan.

As shown in Table 10, most resources would come from DSC. In order to make staff available to DRR, DSC-Risk Management established Contingency Examination Program guidelines that would streamline the examination process for certain institutions while DSC is assisting DRR. DSC-Risk Management would also take other measures to provide staff as shown in Table 11.[13]

[13] The Plan describes the DOS function separately from the DCA function because the Plan was developed prior to the reorganization of DOS and DCA into DSC-Risk Management and DSC-Compliance, respectively. The Plan provided a similar process for providing DCA resources.

Table 11: Summary of Available DSC-Risk Management Examiner Resources

Initiative	*FTEs*	*Percentage of Total*
Contingency Exam Procedures	103	11%
Limiting specialty exams	385	42%
Reducing examiner training by 50 percent	230	25%
Reducing details and special projects by 50 percent	202	22%
Sub-Total	920	100%
Offset by: Increase in 3, 4, & 5 safety and soundness examinations	(180)	
Increase in exam backup authority	(83)	
Sub-Total	657	
DSC-Risk Management will also provide:		
Case Managers	20	
Regional Office professional staff	28	
Washington Office professional staff	29	
Total FTEs for a 3-month period	**734**	

Source: DOS Readiness Plan.

We interviewed senior DSC officials who confirmed their commitment to the Plan and indicated that as long as DSC staff are utilized for a period not-to-exceed 90 days, DSC will be able to continue to successfully meet its bank supervision responsibilities. DSC noted that staffing levels change and stressed the need for DRR to revisit the Plan's staffing levels semiannually to adapt to any changes.

In order to address how non-DRR staff would be identified and deployed in the event of Plan activation, DRR developed headquarters and regional points of contact and an automated system to manage and track staff assigned to institution closings. We verified that DRR had identified specific Washington closing coordinators and regional office contacts for each DSC region. In addition, we observed a demonstration of DRR's Overarching Automation System (OASIS) and confirmed that the system is in place and is being used for tracking the status of DRR staff assigned to institution closing activities.

DRR conducted a simulation of the CRP in mid-September 2002. DRR indicated the simulation was successful. DRR also plans to perform periodic testing of the Plan to ensure the appropriate FDIC personnel are familiar with the processes needed to effectively deploy potentially large numbers of non-DRR personnel. We support DRR's efforts to test the Plan. Further, given revisions to non-DRR staffing commitments we encourage DRR to periodically update the Plan to ensure it reflects existing staffing resources and levels of commitment from other Divisions, especially DSC.

Training Program

Training is an integral part of developing a flexible resolutions workforce and an important component of the Plan. According to the DRR Director, long-range planning for readiness started about 6 years ago when DRR initiated steps to move DRR from a composition of geographically diverse specialists to an organization of generalists. To that end, DRR developed a Cross-Training Program to broaden the knowledge and skills of current professional employees in all of the Division's functional areas (i.e., Franchise and Asset Marketing, Asset Management, and Receivership Management). The Cross-Training Program is comprised of a series of Computer-Based Instruction (CBI) and classroom instruction training courses. DRR requires its employees to complete a minimum of four courses annually to ensure they possess the necessary knowledge and skills to successfully perform their assigned functions at a financial institution closing. The accompanying inset presents current DRR courses offered by DRR's Cross-Training Program.

Available Courses Offered under DRR's Cross-Training Program

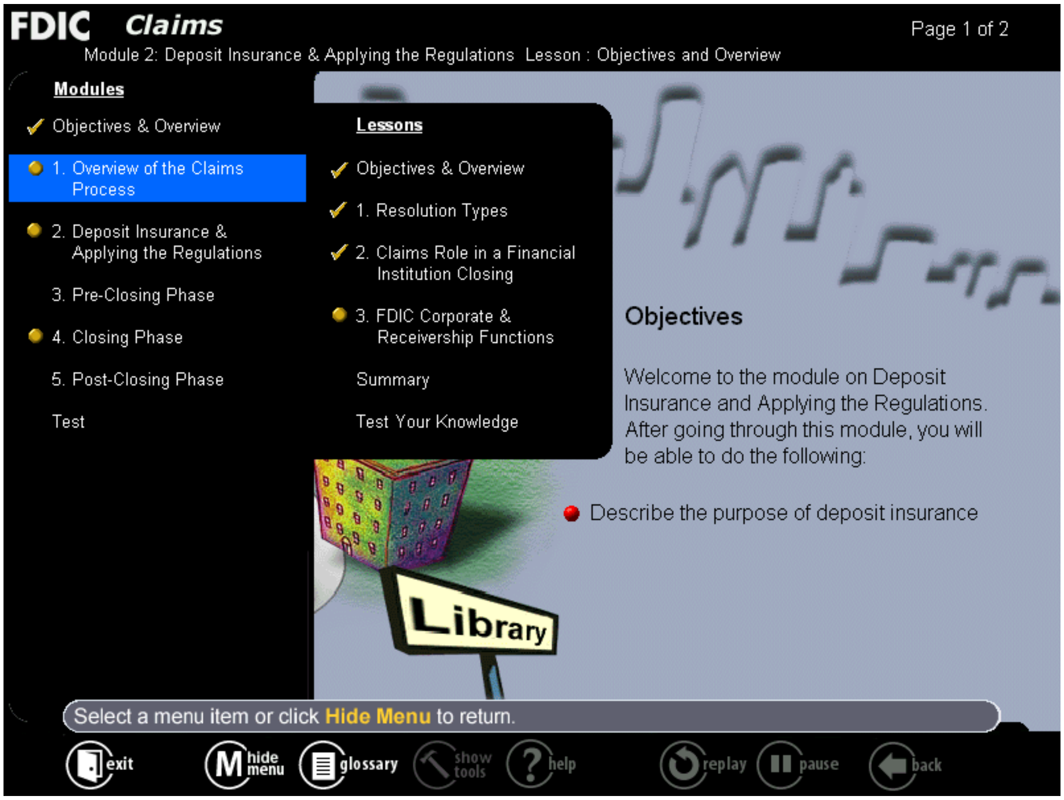
- Affordable Housing
- Claims
- Collateral Release
- Franchise Marketing
- Investigations
- Loan Management/Sales
- Non-Asset Defensive Litigation
- Receivership Liability System
- ORE Management/Marketing
- Other Assets
- Receivership Benefits
- Securities Marketing
- Settlements
- Subsidiaries
- Terminations
- Standard Asset Valuation Estimation Methodology

Under the Plan, most non-DRR staff assigned to assist with closing work would receive a CBI training course once their assignments on a closing were made (i.e., on a "Just-In-Time" basis). The CBI course would be consistent with the functional area to which the staff is assigned. Non-DRR staff will have about 1-4 days to complete the course before assisting with the closing. DRR assumes that any non-DRR staff assigned to assist DRR in an actual closing would be closely supervised by more experienced DRR personnel for most closing tasks.

DRR determined that the only closing function that required classroom training was in the claims area, because it involves insurance determinations and is considered the most complex of all closing functions. In order to develop claims-related work competencies of non-DRR staff who would assist DRR on a closing should an emergency arise, DRR developed a claims training program that consists of the following:

- Basic/Intermediate Claims 3-day CBI course. Figure 3 presents an excerpt from the CBI course.
- Receivership Liability System 1-day CBI course – the automated system for tracking and processing insurance and general creditor claims.
- Advanced Claims – instructor-led, classroom training; 3.5-days training.
- On-the-job assistance with an actual closing.

Figure 3: Excerpt from DRR's Claims-Basic/Intermediate CBI Course



Source: Claims CBI CD-ROM

DRR issued an Expression of Interest (EOI) to non-DRR staff for volunteers to participate in the claims training program. DRR made an agreement with FDIC Division Directors to limit participation to 78 volunteers. Most of the volunteers are DSC examiners. According to the Plan, over the course of a 2- to 3- year period, all volunteers would complete the training courses and be available to perform on-the-job assistance on an actual institution closing.

We reviewed training documents and verified that approximately two-thirds of the EOI volunteers have completed advanced claims training or have prior insurance determination experience and are prepared to augment the DRR claims staff on an actual closing. Nine of the 75 have completed all four elements of the claims training program. DRR tries to include two of the EOI volunteers on each institution closing, thus the number of volunteers attending closings is limited by the number of actual institution failures.

We concluded that DRR's training program is in place and that DRR is making progress in training non-DRR staff in the claims area. By making the training for DRR staff mandatory, developing cross-training opportunities for non-DRR personnel, and introducing contingent contractors to the training requirements, DRR has added to the flexibility of the Plan's ability to deploy trained and competent staff to assist handling an increased and unexpected level of failure activity.

Plans to Rehire Former Employees

As part of the original COPS project, DRR researched the possibility of creating and maintaining a database of former employees who would provide assistance to DRR during an insured institution failure crisis until DOA could bring contractors on board. The DRR Director indicated that he would prefer to use former employees before using non-DRR staff from within the FDIC (especially from DSC) in order to avoid disruption to the Corporation's bank supervision mission.

To assess the level of the former employees' interest, DRR placed an ad in a copy of the *FDIC News* (see inset). According to DRR, the response to this ad was overwhelming, with more than 215 interested respondents. DRR plans involve establishing three labor rate categories: managerial, professional, and administrative/technical.

DRR completed its stated COPS project objective of researching the possibility of hiring former employees and began a separate project to determine how to bring those former employees on board. DRR was working with DOA to resolve several outstanding matters before the program can be fully implemented. As of June 2002, DRR had suspended work on the project because of more pressing matters but intends to continue researching the area in the near future.

Retirees: Interested in Helping the FDIC Close Institutions?

The FDIC has developed a Corporate Readiness Plan to provide short-term assistance to deal with a significant and unexpected increase in bank failures. If this were to occur, DRR would need help with pre-closing and closing activities. The plan calls for DRR to "borrow" approximately 1,400 employees from certain divisions in the Corporation.

In addition, DRR is creating a database of retirees who would be willing and able to provide assistance to DRR during an emergency. If you are a retiree, or plan on retiring soon, and are interested in participating in closing activity, tell us where to contact you for a future assignment if the need arises. Please provide your name, address, telephone number, and personal e-mail address (if you have one) to:

[name and address]

The FDIC may use personal services contracts for retirees so volunteering for these assignments would not affect pension benefits. If retirees are awarded a contract, they would not be considered federal employees.

If you have any questions, please call [name and telephone number].

Source: FDIC NEWS, November 2001.

We interviewed senior DOA officials familiar with DRR's plans to rehire former employees. We noted a few differences between DOA's and DRR's views on how such a program would work as presented in Table 12.

Table 12: DRR and DOA Approaches to Rehiring Former Employees

DRR Approach	*DOA Approach*
Advertised use of personal services contracts for annuitants in the FDIC News.	Personal services contracts are prohibited according to FDIC Policy.
Prefers to use former employees before using non-DRR employees (especially DSC).	Cautions against using contractors over internal staff due to Union concerns (Article 17 of the NTEU Bargaining Unit Agreement).
Application process should be highly selective to ensure the best match of skills with necessary tasks.	Cautions against being too highly selective in the application process in order to enhance fair competition.
Anticipates three labor categories with three standardized labor rates for each category.	Anticipates non-standardized labor rates in order to compensate contractor for the level of experience offered.
Anticipates pursuing a waiver from the 5-year reemployment restrictions found in the FDIC's Voluntary Separation Incentive Program.	Anticipates a waiver as well, no difference in approach.
Prefers to utilize former FDIC employees only.	Anticipates researching use of former employees from other financial institution regulatory agencies as well as the FDIC.

Source: OIG interviews with DOA and DRR.

Of most significance is DRR's advertised use of personal services contracts. Under the FDIC's APM, personal services contracts are prohibited. Personal services contracts are those contracts that establish an employer/employee relationship between the Corporation and the contractor's employees. These prohibited personal services contracts arise when the terms of the contract or actual contract performance create a situation when FDIC employees are providing day-to-day supervision of contractor employees or when the contractor's employees perform or engage in an inherent function of the Corporation. Appendix VI contains APM excerpts relating to prohibited personal services contracts. DOA officials expressed concern that DRR's *FDIC News* article advertised personal service contracts. DOA indicated that it would not enter into contracts with individuals that could be perceived as personal services contracts.

CORPORATION COMMENTS AND OIG EVALUATION

We issued a draft version of this report on October 9, 2002. DRR provided e-mail comments to the draft report on October 23, 2002. DSC also provided comments via e-mail on October 21, 2002. We revised our report, where appropriate, to address DRR and DSC's comments. DRR also provided additional information pertaining to non-DRR staffing commitments on October 29, 2002. We updated our final report to reflect this new information.

With respect to plans for rehiring former employees, DRR clarified that it has been working in conjunction with DOA in an evolving approach to rehiring former employees. DRR indicated that it has no intention to use personal service contracts or to use contractors at institution closings that could take work away from DRR employees. DRR noted that it worked closely with the National Treasury Employees Union during the CRP project.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our evaluation was to assess the reasonableness of the Plan. Our evaluation focused on the key Plan elements, underlying assumptions, and COPS deliverables. Table 13 presents examples of each.

Table 13: Examples of Key Elements, Plan Assumptions, and COPS Deliverables

Type	*Example*
Key Elements	• Contracting Framework • Readiness Scenarios • Training Program
Plan Assumptions	• The Plan will only be implemented for significant and unexpected increases in failure activity. • Readiness support period is not expected to exceed 90 days. • Personnel assigned will receive CBI training prior to deployment.
COPS Deliverables	• Establish lines of authority. • Develop personnel tracking system. • Simulate and test Plan.

Source: OIG generated.

To accomplish our objective, we performed the following work:

- Reviewed the Corporate Readiness Plan and supporting documentation.
- Interviewed officials from DRR, DSC, DOA, and DIR who were involved with or knowledgeable about the Plan.
- Identified key Plan elements and underlying Plan assumptions.
- Verified the status and completion of the deliverables required under the COPS project.
- Reviewed DOA's contracting framework and files for contracts associated with recent failures.
- Reviewed DRS failure scenarios and supporting documentation.
- Reviewed FDIC Corporate Workload Assumptions and DSC's 8-Quarter report.
- Reviewed FDIC core staffing documents for DRR and DSC.
- Reviewed DSC's Contingency Exam Procedures.
- Observed a demonstration of DRR's OASIS system.

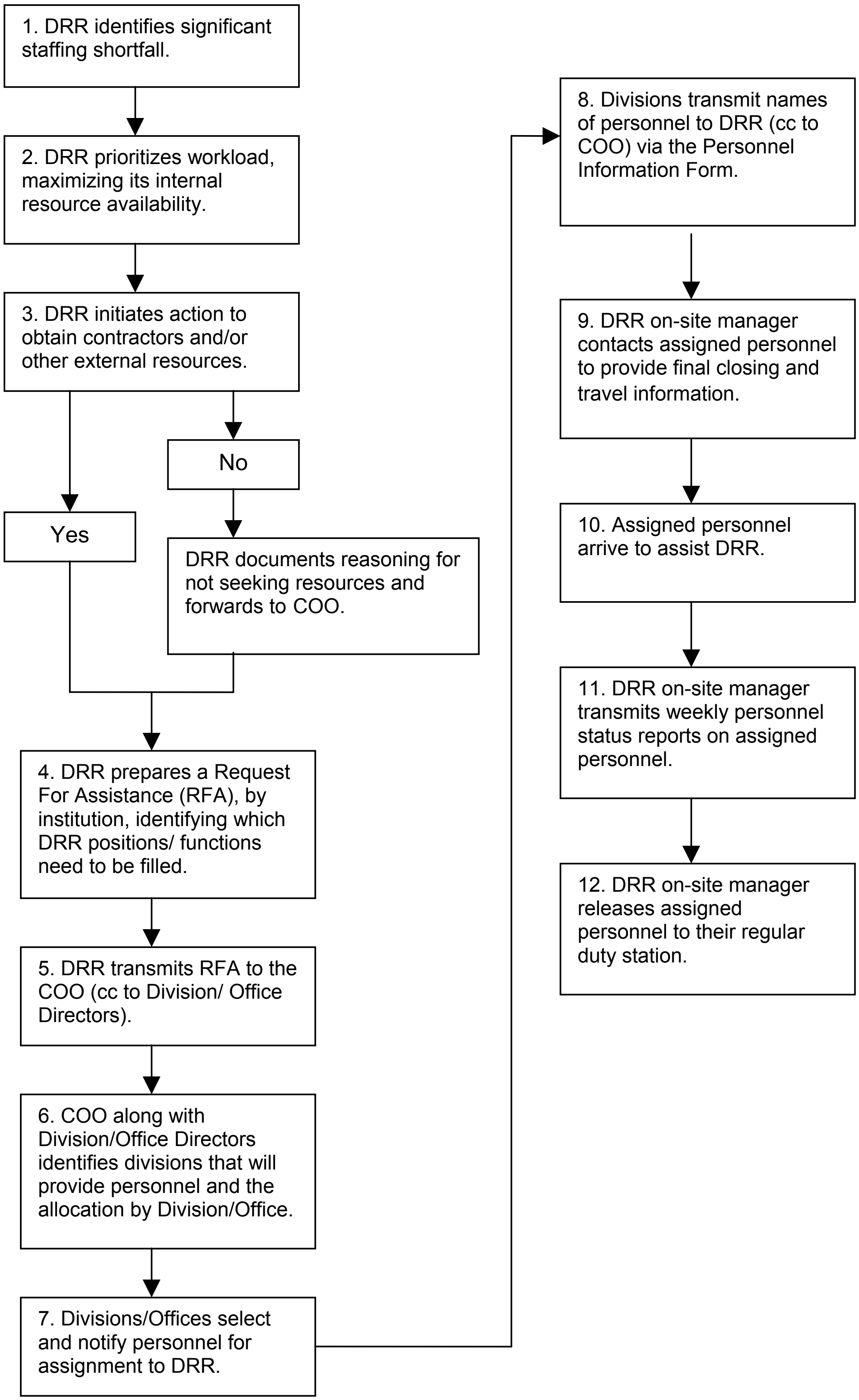
- Reviewed DRR's training curriculum and Claims-Basic/Intermediate CBI course.
- Verified extent of training of non-DRR staff.
- Researched guidance related to personal service contracts, re-employment issues, and union implications associated with rehiring former employees.

We conducted our evaluation from May through September 2002, in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

ACRONYMS USED IN REPORT

BOA	Basic Ordering Agreement
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CBI	Computer-Based Instruction
CFO	Chief Financial Officer
COO	Chief Operating Officer
COPS	Corporate Operating Plan System
CRP	Corporate Readiness Plan
DCA	Division of Compliance and Consumer Affairs
DIR	Division of Insurance and Research
DOA	Division of Administration
DOS	Division of Supervision
DRR	Division of Resolutions and Receiverships
DRS	Division of Research and Statistics
DSC	Division of Supervision and Consumer Protection
EOI	Expression of Interest
FDIC	Federal Deposit Insurance Corporation
FRC	Financial Risk Committee
FTE	Full Time Equivalent
MSA	Metropolitan Statistical Area
OASIS	Overarching Automation System
OM	Oversight Manager
ORE	Owned Real Estate
RAC	Receivership Assistance Contract
RFA	Request for Assistance
RTG	Readiness Task Group
SOW	Statement of Work

DEPLOYMENT MANAGEMENT FLOWCHART



KEY PLAN ASSUMPTIONS AND COPS DELIVERABLES

Section 3 of the Plan listed assumptions that the RTG made in developing the CRP. Table 14 lists those assumptions and our conclusions on reasonableness when covered by the scope of our review.

Table 14: Corporate Readiness Plan Assumptions

CRP Assumption
• The Corporate Readiness Plan is to provide short-term support to DRR resolution and receivership activities. The Plan does not address closing-related functions of the Division of Finance, DOA, Division of Information Resources Management, Legal Division, or the Office of the Ombudsman. The non-DRR closing-related functions are being addressed in a separate platform analysis. *We limited our evaluation to DRR's Corporate Readiness Plan. We did not review the closing-related functions of the other divisions or offices.*
• The Plan will be implemented only for significant and unexpected increases in insured depository institution failure activities that exceed DRR's existing capacity. *We interviewed senior DRR and DSC managers who confirmed that the Plan would only be implemented in the event of a significant or unexpected increase in failure activity. We concluded that this assumption was reasonable.*
• DRR will provide the staff and expertise to perform key closing positions, such as Receiver-In-Charge, Closing Manager, and Closing Area Program Managers. *We concluded that it was reasonable for DRR to maintain control over these key closing functions.*
• Before requesting interim assistance from other divisions and offices, DRR will prioritize its workload in order to maximize the internal resources it devotes to closing activities. *DRR has become an organization of "generalists" and has established a mandatory training program for all DRR staff. This training will maximize DRR's internal resources by making all DRR staff more prepared to assume the responsibility for closing activities and to monitor the performance of non-DRR personnel and contractors. Thus, we believe DRR's plans to maximize internal resources before requesting resources from other divisions and offices is reasonable.*
• Prior to or concurrent with requesting interim assistance from other divisions and offices, DRR will initiate the steps to obtain external resources (contractors, term/temporary employees, etc). *DRR and DOA have a comprehensive contracting framework in place. We verified that DRR and DOA have been able to award contracts for specific failures within an average of 16 days under this framework. We concluded that this was a reasonable assumption.*

CRP Assumption
• Support to DRR from other divisions and offices will be focused on the four major field activities of DRR: Asset Marketing, Asset Management, Receivership Operations, and Resolutions. *DRR reviewed and categorized non-DRR position descriptions into the four major field activities listed above. We concluded that it was reasonable to assign temporary staff from other divisions and offices to one of the four major field activities.*
• Personnel temporarily assigned to DRR from other FDIC divisions will be released as quickly as feasible once DRR is able to deploy contractors and/or term/temporary employees to augment its permanent workforce. *As discussed in the body of this report, DOA has been able to compete and award contracts within an average of 16 days for failures occurring during 2001 and 2002. We believe it is a reasonable and prudent assumption that non-DRR staff will be released as quickly as feasible to avoid impacting other responsibilities of the Corporation, such as bank supervision.*
• The "Readiness" support period that non-DRR personnel will be assigned to DRR activities is not expected to exceed 90 days. This period may be influenced by DRR/DOA ability to obtain external resources. *We concluded that the 90-day timeframe is reasonable and is consistent with DRR's policy to resolve institutions within 90 days.*
• Personnel assigned to assist DRR will be provided sufficient time to complete CBI- training, if necessary, prior to deployment. *DRR has a mandatory program in place to train its staff and has made this training readily available to non-DRR staff and contractors. We concluded that DRR's plan to provide just-in-time training was reasonable.*
• Staffing levels in key support divisions will remain at currently projected levels. *Current core staffing estimates indicate that DRR and DSC staffing levels will remain constant through 2006. Accordingly, we concluded that this was a reasonable assumption. However, DRR and DSC will need to periodically revisit the level of staff that DSC can commit to the CRP. We did not evaluate the sufficiency of DRR or DSC staffing levels.*

Source: Corporate Readiness Plan.

COPS Deliverables

DRR formalized the CRP as COPS project DI-CRP-06-02-00-1594. The project began in November 2000. On September 26, 2002, the DRR Director submitted a memorandum to the COO and indicated that the COPS project had been completed. We verified that DRR had completed each of the COPS deliverables. Table 15 presents the COPS deliverables and dates of completion. A brief discussion of each deliverable follows.

Table 15: COPS Deliverables

Deliverable	*Date Completed*
• Develop lines of authority	February 2001
• Develop employee tracking system	March 2002
• Develop training plan	February 2001
• Research possibility of annuitant database	March 2001
• Simulate and test Plan	September 2002
• Present plans and systems to COO and Chief Financial Officer (CFO) for final approval	September 2002

Source: Interviews with DRR staff.

- **Lines of Authority:** We verified that DRR had identified individual points of contact in Washington and in FDIC regional offices for coordinating staffing assignments if the CRP is activated. For DSC, each region has separate points of contact for risk management and compliance staff.

- **Tracking System:** DRR built an additional module, called OASIS, into an existing DRR system. OASIS will track the assignments, locations, and status of non-DRR employees assigned to closing teams. OASIS was placed in production in late April 2002. We attended a demonstration of OASIS to observe that it was operational.

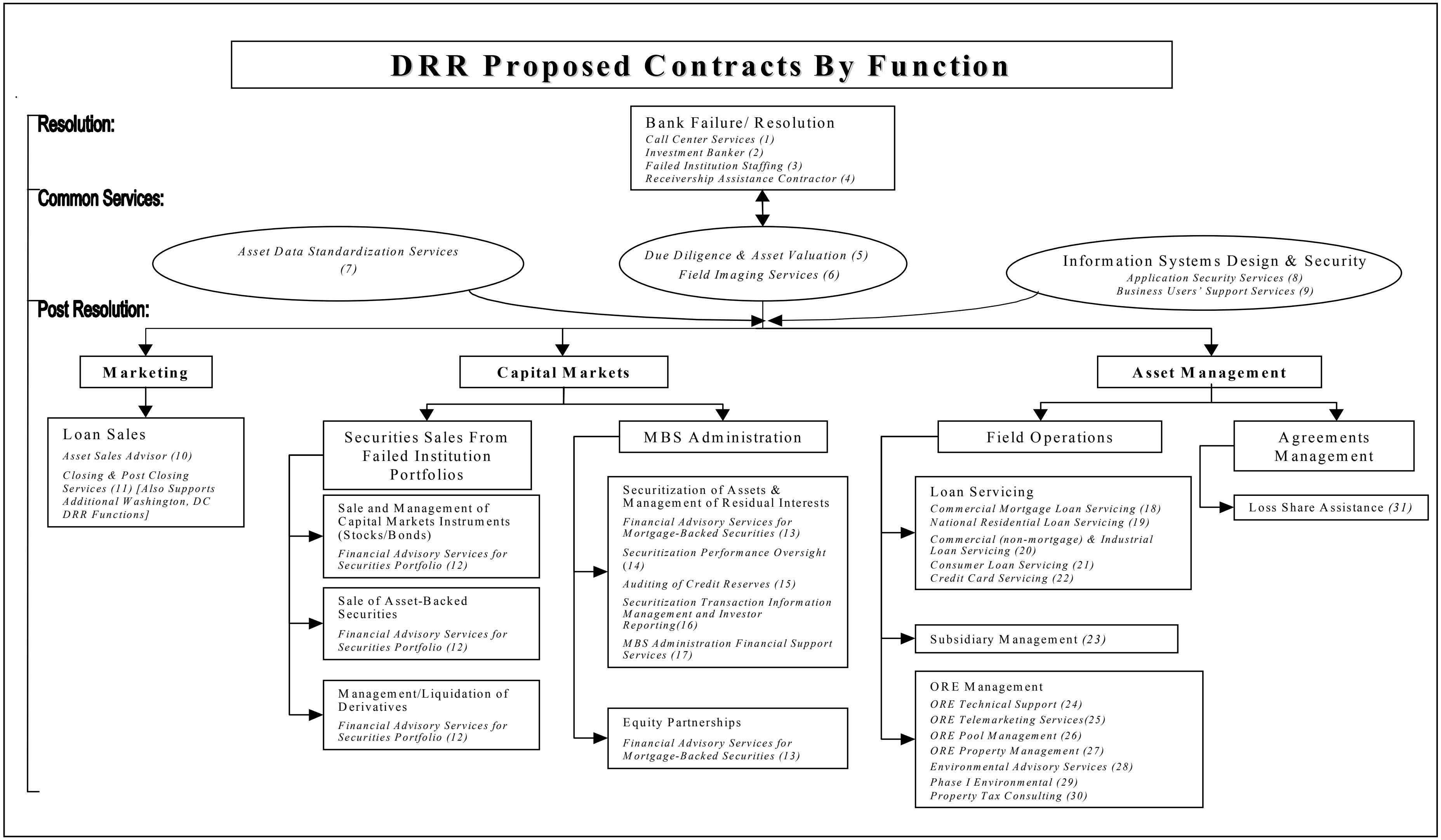
- **Training:** DRR's training program is an integral part of developing a flexible "generalist" staff. DRR is requiring that DRR staff complete four CBI courses annually and will provide non-DRR staff with the appropriate CBI course at the time that the staff is assigned to a closing. DRR has also developed a more involved curriculum for training staff assigned to the claims insurance determination function.

- **Annuitant Database:** DRR researched the possibility of rehiring former employees under individual short-term contracts to assist in the event of Plan activation. DRR believes the annuitants would have a quicker learning curve than non-DRR staff and this option would have less of an impact on DSC's supervision mission.

- **Simulation and Testing of Plan:** DRR conducted a simulation of the Plan in mid-September 2002. The simulation included the Plan coordinators from the other Divisions. DRR reported that the simulation was a success.

- **Presentation to COO and CFO:** At the time of the initial COPS project, DRR reported to the CFO. FDIC restructured COO and CFO duties in early 2002, and DRR now reports to the COO. The Plan indicated that the COO and CFO would jointly be responsible for activating the CRP. However, DRR officials informed us that most likely the COO would solely be responsible for activating the Plan. The DRR Director briefly discussed the Plan with the COO earlier this year. The COO recommended presenting the Plan to the FDIC Operating Committee. DRR presented the CRP to the Operating Committee in late-September 2002.

RESOLUTION AND RECEIVERSHIP CONTRACTING STRUCTURE



Source: 1999 Board Case.

CRITERIA FOR PERSONAL SERVICES CONTRACTS

FDIC ACQUISITION POLICY MANUAL
CHAPTER 7 - SECTION 7.F.
MAINTAINING INDEPENDENT STATUS OF CONTRACTORS

7.F.1. Overview - The purpose of this section is to establish guidelines for maintaining the independent status of contractor employees providing services under contracts with FDIC.

7.F.2. Applicability - The Contracting Officer and Oversight Manager must ensure that, during performance of any contract, the services being performed by the contractor do not involve or create an employer/employee relationship between the FDIC and the contractor's employees. This type of situation arises when FDIC personnel provide day-to-day supervision to the contractor's employees during contract administration. Contracts that create an employer/employee relationship between the FDIC and the contractor are prohibited. These situations are referred to as prohibited personal services contracts. Contracting Officers and the Oversight Manager will monitor the contractor's efforts and review deliverables to determine compliance with the terms and conditions of the contract, but under no circumstances shall an FDIC employee directly supervise the contractor's employees.

7.F.3. Determining Factors - In addition to the supervision factor, the following factors should be used to determine whether or not the administration of an existing contract has created a prohibited employer/employee relationship. As previously mentioned, the most important factor is the one pertaining to the supervision exercised by FDIC over the contractor personnel. The presence of this factor alone can result in a prohibited employer/employee relationship. The remaining factors generally carry relatively equal weight, and any final determination with respect to a prohibited employer/employee relationship must be assessed on a case-by-case basis.

7.F.3.a. On-Site Work - Contractor employees work on site;

7.F.3.b. FDIC-Furnished Equipment - Principal tools and equipment are furnished by FDIC;

7.F.3.c. Inherently Government Functions - Work involves an inherently government function;

7.F.3.d. Duration - Duration of the contract exceeds one (1) year; and

7.F.3.e. Comparability with FDIC Work - Comparable services that meet FDIC needs are performed by FDIC (e.g., the contractor's employees are performing the same or similar job(s) as FDIC employees).

7.F.4. Notification - If the Oversight Manager believes that a contract may involve prohibited personnel services (i.e., involving an employer/employee relationship between FDIC and the contractor's employees), the matter shall be immediately brought to the attention of the Contracting Officer. Legal review shall be sought as necessary.

7.F.5. Contractor Employees Working On Site - In order to preserve the independent status of contractor employees, the following precautions shall be observed:

7.F.5.a. Work Stations - Work stations of contractor personnel should be separated from FDIC personnel to the maximum extent practicable;

7.F.5.b. Identification - Contractor personnel should be required to wear badges on site, display appropriate office signs, or take some other measure to clearly identify them as contractor employees;

7.F.5.c. Staff Meetings - Contractor employees should not be invited to attend regular staff meetings; and

7.F.5.d. Recreational Activities - Generally, contractor employees may not participate in services or employee recreational activities (including without limitation office picnics and holiday parties) which are provided for the benefit of FDIC employees.