United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Federal Services, Post Office and Civil Service, Committee on Governmental Affairs, U.S. Senate

July 1993

RESOLUTION TRUST CORPORATION

Summary of GAO Products

GAO/GGD-93-128

GAO

United States
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Washington, D.C. 20548

General Government Division

B-253380

July 20, 1993

The Honorable David Pryor
Chairman, Subcommittee on Federal
Services, Post Office and Civil
Service
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your request for a summarization of all our products completed on the Resolution Trust Corporation (RTC) and related issues, an update of RTC's actions to implement our recommendations, and a discussion of the applicability to RTC of federal regulations limiting the contracting out of inherently governmental functions.

Results in Brief

Since RTC's inception in August 1989 through December 1992, we issued 98 products on RTC's operations and related issues and made 76 recommendations. As of April 13, 1993, 28 of our recommendations were closed because RTC implemented 26 and 2 recommendations were no longer applicable. We are keeping 48 recommendations open: RTC is taking action on 28, will take no action on 14 others, and has taken action on 6 that we deem not responsive to the recommendation.

Our High-Risk Series report[1] and 1993 performance assessment testimony[2] on RTC discussed several areas that require immediate action to minimize a number of risks within RTC's control. These actions include (1) better planning of real estate disposition activities to ensure maximum recoveries on sales, (2) establishing a comprehensive system of contract oversight (given the large amounts of money flowing through RTC's contracting system), and (3) improving the integrity of the Real Estate Owned Management System data and the Asset Manager System.

Although RTC relies heavily on contractors, it is not subject to the Office of Management and Budget's (OMB) rules limiting contracting out of inherently governmental functions. Further, although contracting rules state that it will retain governmental functions, RTC has neither defined

[1]High-Risk Series: Resolution Trust Corporation (GAO/HR-93-4, Dec. 1992).

[2]Resolution Trust Corporation: Funding, Organization, and Performance (GAO/T-GGD-93-13, Mar. 18, 1993).

those functions nor prescribed rules for comparing the costs of contracting out with those of using federal employees.

Background

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) authorized RTC to use private sector contractors whenever practical and efficient. This provision was enacted, in part, to promote RTC's general asset disposition objectives and to minimize its reliance on governmental sources. FIRREA also mandated that the RTC Oversight Board in consultation with RTC prescribe standards for adequate competition and fair and consistent treatment of contractors. As a mixed-ownership government corporation, RTC is not required to follow the Federal Acquisition Regulation and, therefore, has developed its own contracting policies and procedures.

RTC has used private sector contractors extensively for every aspect of its operations: contractors develop and maintain information systems, manage and dispose of assets from failed thrifts, and litigate cases on RTC's behalf. Table 1 summarizes the type, number, and total estimated fees of active private sector contracts with RTC.

Table 1: Active RTC Contracts With Private Sector Firms as of December 24, 1992

Dollars in thousands

Type of contract	Number of contracts	Total estimated fees
Asset management and disposition	236	$646,051
Loan administration/consulting	462	179,147
Legal counsel[a]	60,066	826,522
Accounting, auditing financial services	1,151	320,951
Due diligence/file review	303	114,023
Operations supplies and support services	848	108,314
Other consulting	650	380,909
Real estate brokerage	6,604	126,721
Other	14,935	502,791
Total	**85,255**	**$3,205,431**

[a]Number of legal matters with outside counsel and estimated fees as of March 30, 1993.

Source: RTC's Contracting Activity Reporting System and RTC's Legal Division.

Objectives, Scope, and Methodology

Our objectives were to

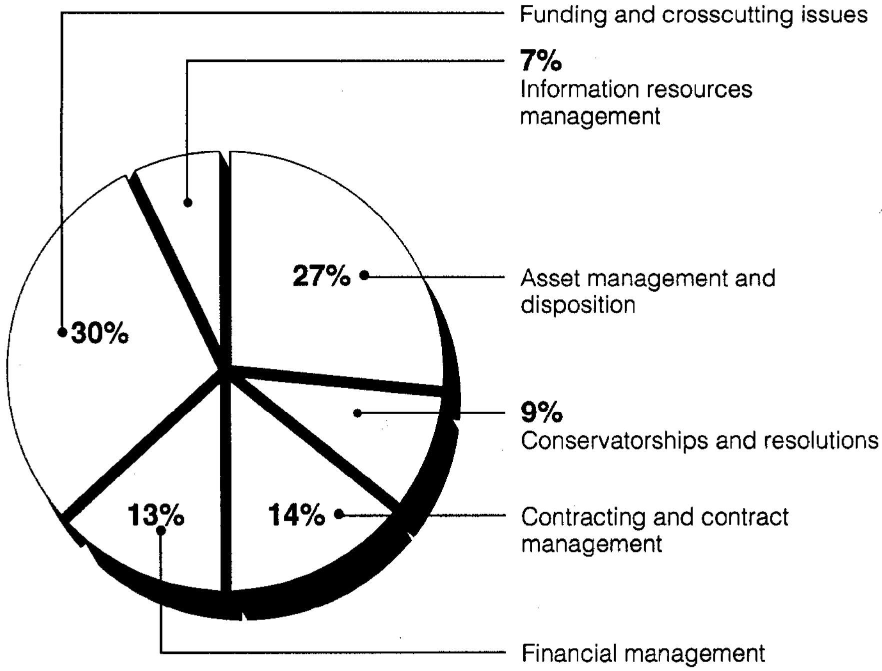
- summarize all GAO products on RTC operations, including issues related to RTC operations such as deposit insurance issues, and status of recommendations on RTC operations;
- identify the most critical issues requiring immediate management attention;
- assess the applicability to RTC of the Office of Management and Budget's (OMB) guidance on inherently governmental functions; and
- identify RTC cost analyses to determine whether it is more economical to use contractor employees or government staff to conduct RTC operations.

To obtain a comprehensive list of GAO products on the RTC, we edited summaries obtained from GAO's Documents Database of Reports as of December 31, 1992. We interviewed cognizant RTC officials and reviewed related documentation to determine what actions had been taken as of April 1993 in response to GAO recommendations. Also, we reviewed relevant GAO products and OMB publications about inherently governmental functions. To identify RTC's efforts to perform cost analyses, we interviewed cognizant RTC officials, reviewed RTC's contracting manual, and reviewed applicable GAO products.

GAO Products on RTC Operations

Since August 1989, when RTC started its operations, through December 1992, GAO issued 98 reports, testimonies, fact sheets, briefing reports, and correspondence on 6 major issues: (1) asset management and disposition, (2) conservatorships and resolutions, (3) contracting and contract management, (4) financial management, (5) funding and crosscutting issues, and (6) information resources management. Figure 1 summarizes the distribution of these products by issue.

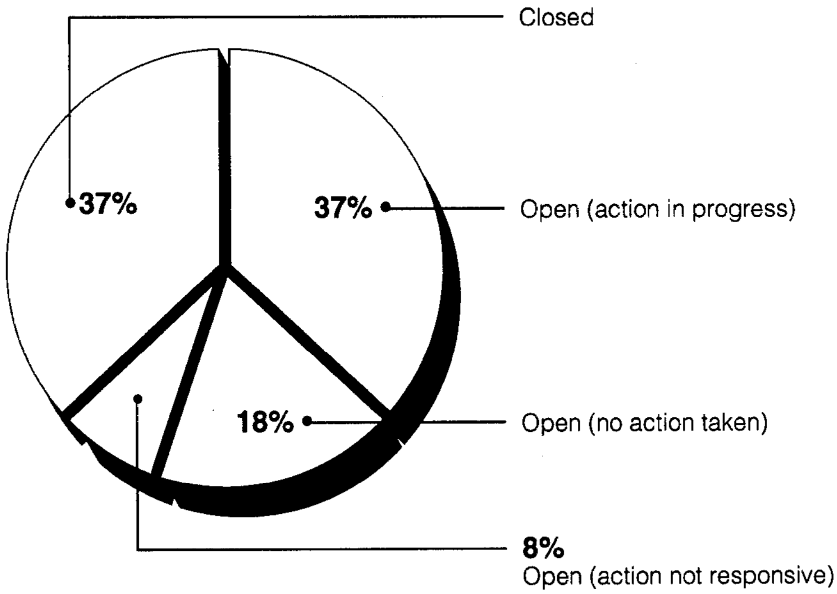
Figure 1: Distribution of GAO Products on RTC, by Issues, as of December 31, 1992



Note: Number of products issued = 98.

We have made 76 recommendations to improve RTC operations. Figure 2 shows the status of our recommendations as of April 13, 1993.

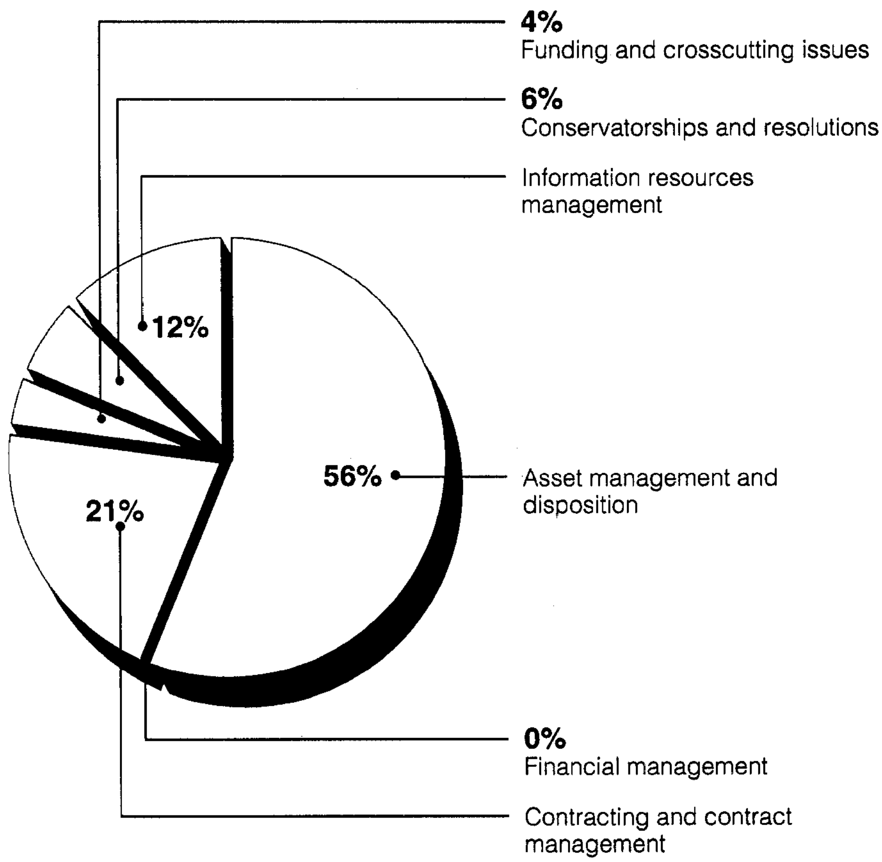
Figure 2: Status of GAO Recommendations to RTC, as of April 13, 1993



Note: Number of recommendations = 76.

Of the 48 recommendations still open, including those with actions in process, 27 are directed toward asset management and disposition issues, 10 are related to contracting and contract management issues, 6 are on information resources management, 3 are on conservatorships and resolutions, and 2 are on funding and crosscutting issues. In March 1993, the chairman of the Thrift Depositor Oversight Protection Board announced that RTC would establish a system to provide prompt, systematic, and effective follow-up on the findings and recommendations from GAO products and RTC inspector general reports. Figure 3 shows the distribution of open GAO recommendations, by issue.

Figure 3: Open GAO Recommendations to RTC, by Issue, as April 13, 1993



A table of those products with recommendations that have actions in process but not completed is shown in appendix I. A table of products with recommendations that RTC has taken no action on is shown in appendix II. Appendix III lists and summarizes each of our 98 products on RTC, by issue.

Issues Requiring Immediate Management Attention

As discussed in our High-Risk Series report on RTC, several issues will require immediate attention to minimize the cost of the savings and loan cleanup. RTC's greatest challenges in its remaining years will be to maximize the rate of return on its growing inventory of hard-to-sell assets and provide adequate contractor oversight. We have made several recommendations to help RTC minimize risks that are within its control. For example, in our report[3] on RTC's pilot program of portfolio sales using participating cash flow mortgages, we found that almost one-third of the assets RTC held in inventory from failed thrifts were in hard-to-sell assets, such as delinquent loans and commercial real estate. We recommended that RTC perform a post-closing assessment of the pilot transactions to determine if transactions such as these have the potential to meet RTC's financial objectives.

As of April 1993, the pilot transaction was still ongoing; the postclosing assessment cannot be performed until that transaction is completed. In the High-Risk Series report, we also recommended that RTC develop detailed oversight procedures for loan monitoring and administration, centralize oversight responsibility, and implement an oversight process to protect its long-term interests. As of April 1993, RTC had established servicing and oversight procedures for its contractors.

While RTC has acted on some of our recommendations, further actions are needed to address the following:

- RTC should better plan its real estate disposition activities and ensure maximum recoveries on asset sales. Specifically, RTC should evaluate its disposition results carefully to better plan its future disposition strategies and ensure maximum recoveries.
- Given the large amount of money flowing through private sector contractors acting on RTC's behalf, RTC must take further action to ensure a comprehensive system of contract oversight by improving management information systems and continually evaluating contractor performance.
- RTC should continue efforts to test and improve the integrity of data for its Real Estate Owned Management System and Asset Manager System.

In March 1993, Treasury Secretary Lloyd Bentsen presented a plan to improve RTC's operations that identifies nine critical areas—including strengthening internal controls, responding to problems identified by GAO and the IG, and strengthening contractor systems and contract oversight—that will require sustained RTC attention to ensure successful implementation.

[3]Resolution Trust Corporation: Assessing Portfolio Sales Using Participating Cash Flow Mortgages (GGD-92-33BR, Feb. 25, 1992).

OMB's Inherently Governmental Function Regulations Do Not Apply to RTC

Generally, government agencies are prohibited from using contractors to perform inherently "governmental functions." However, the concept of governmental functions has been difficult to define. Two Office of Management and Budget (OMB) circulars provide guidance on this issue. OMB Circular A-120, Guidelines for the Use of Advisory and Assistance Services, dated January 4, 1988, states that advisory and assistance services obtained from individuals and organizations should not be "used in . . . performing work of a policy, decisionmaking, or managerial nature, which is the direct responsibility of agency officials."

Similarly, OMB Circular A-76, Performance of Commercial Activities, dated August 4, 1983, describes a governmental function as one that "is so intimately related to the public interest as to mandate performance by government employees. These functions include those activities which require either the exercise of discretion in applying government authority or the use of value judgments in making decisions for the Government." Circular A-76 identifies several specific governmental functions, such as criminal investigations, prosecutions, and other judicial functions; tax collections and revenue disbursements; management of government programs requiring value judgments, as in the direction of national defense; and direction of federal employees.

In November 1991, we reported that OMB needed to issue more guidance to federal agencies on inherently governmental functions.[4] In September 1992, OMB's Office of Federal Procurement Policy issued a policy letter[5] giving a more detailed definition of inherently governmental functions and provided a list of functions considered to be inherently governmental. The policy letter also listed services and actions that might approach being inherently governmental because of the way the contractor performs the contract or the government administers contractor performance. When contracting for such services and actions, agencies should be fully aware of the terms of the contract, contractor performance, and contract administration to ensure appropriate agency control.

Because RTC is a mixed-ownership government corporation, it is not subject to OMB circulars A-76 and A-120. Accordingly, those rules on inherently governmental functions and contracting out of commercial activities do not apply to RTC.

[4]Government Contractors: Are Service Contractors Performing Inherently Governmental Functions? (GAO/GGD-92-11, Nov. 18, 1991).

[5]57 Fed. Reg. 45096 (Sept. 30, 1992).

Although RTC is not subject to OMB guidance on contracting out inherently governmental functions, RTC's contracting policies and procedures manual provides some guidance on decisionmaking on when to use private sector contractors. The manual states that "It is RTC policy to maximize the efficient use of private sector resources while retaining for itself those functions that are governmental." However, the manual does not define "governmental function" nor does it provide guidance on deciding whether a commercial function should be completed with RTC employees or private sector contractors.

Cost Comparisons for Contractors Not Required

Cost comparisons are not required by RTC polices and procedures to justify whether contracting out for a specific project or function is a less expensive alternative than using an RTC employee. In a 1991 report, we found that RTC staff were required by policy to use contractors for asset management and disposition.[6] However, some RTC field staff have said that a more flexible approach for contracting out decisions can be more effective than RTC's requirement to use private sector contractors.

The report recommended that RTC clarify its policies so that managers understand that they have the flexibility to use their staff instead of private contractors when, in their judgment, an in-house approach would be more practical and efficient. RTC is studying how to implement our recommendation and plans to issue a directive on its inherently governmental function and requirements for a contracting out cost analysis in August 1993.

As agreed with the Committee, unless you publicly release its contents earlier, we plan no further distribution of this letter until 30 days from the date of issuance. At that time, we will provide copies of this report to the Chairman of the Thrift Depositor Protection Oversight Board and the President and Chief Executive Officer of RTC. Copies will also be made available to others upon request.

[6]Resolution Trust Corporation: A More Flexible Contracting-Out Policy Is Needed (GAO/GGD-91-136, Sept. 18, 1991).

The major contributors to this report are listed in appendix IV. Please contact me on (202) 736-0479 if you have any questions concerning this report.

Sincerely yours,

Gaston L. Gianni

Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues

Preface

The following appendixes summarize GAO's products and recommendations relating to RTC:

- Appendix I lists for each product the number of open recommendations on which RTC is taking action.
- Appendix II lists for each product the number of open recommendations on which RTC has not yet taken action.
- Appendix III presents a summary of each GAO product, with the status of that product's recommendations. The appendix presents product summaries on six major issues: asset management and disposition, financial management, contracting and contract management, funding and crosscutting issues, conservatorships and resolutions, and information resources management. For each issue, products are listed by date of issuance, with the most recently issued products listed first.

Status of Open GAO Recommendations to RTC on Which RTC Is Taking Action, as of April 13, 1993

Product number/date	Title	Number of open recommendations
GGD-93-7, Oct. 20, 1992	Resolution Trust Corporation: Subcontractor Cash Management Practices Violate Policy and Reduce Income	2
GGD-93-2, Oct. 7, 1992	Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs	1
GGD-92-137, Sept. 29, 1992	Resolution Trust Corporation: Affordable Multifamily Housing Program Has Improved but More Can Be Done	1
GGD-92-136, Sept. 29, 1992	Resolution Trust Corporation: More Actions Needed to Improve Single-Family Affordable Housing Program	1
GGD-92-134BR, Sept. 24, 1992	Resolution Trust Corporation: Survey Results on RTC's Communication and Real Estate Marketing	1
GGD-92-112, Aug. 13, 1992	Resolution Trust Corporation: Disposal of Furniture, Fixtures, and Equipment Needs Improvement	5
GGD-92-82, Apr. 28, 1992	Failed Thrift: Lengthy Government Control of Sunbelt Savings Bank	1
GGD-92-76, Apr. 24, 1992	Resolution Trust Corporation: Oversight of Certain Loan Servicers Needs Improvement	2
GGD-92-40BR, Apr. 23, 1992	Resolution Trust Corporation: Better Qualified Review Appraisers Needed	2
T-GGD-92-14, Feb. 26, 1992	Resolution Trust Corporation: Performance Assessment for 1991	1
IMTEC-92-38, Mar. 5, 1992	Resolution Trust Corporation: Corporate Strategy Needed to Improve Information Management	4
GGD-92-47, Mar. 5, 1992	Resolution Trust Corporation: Further Actions Needed to Implement Contracting Management Initiatives	3
GGD-92-33BR, Feb. 1, 1992	Resolution Trust Corporation: Assessing Portfolio Sales Using Participating Cash Flow Mortgages	2
GGD-91-136, Sept. 18, 1991	Resolution Trust Corporation: A More Flexible Contracting-Out Policy Is Needed	1
GGD-90-87, May 25, 1990	Failed Thrifts: Better Controls Needed Over Furniture, Fixtures, and Equipment	1

Status of GAO Recommendations to RTC on Which RTC Has Not Yet Taken Action, as of April 13, 1993

Product number/date	Title	Number of open recommendations
GGD-93-2, Oct. 7, 1992	Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs	4
GGD-93-2, Oct. 7, 1992	Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Cost[a]	1
GGD-92-137, Sept. 29, 1992	Resolution Trust Corporation: Affordable Multifamily Housing Program Has Improved but More Can Be Done	3
GGD-92-136, Sept. 29, 1992	Resolution Trust Corporation: More Actions Needed to Improve Single-Family Affordable Housing Program	2
T-GGD-92-42, June 2, 1992	Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue Professional Liability Claims	2
GGD-92-40BR, Apr. 23, 1992	Resolution Trust Corporation: Better Qualified Review Appraisers Needed	1
GGD-92-33BR, Feb. 1, 1992	Resolution Trust Corporation: Assessing Portfolio Sales Using Participating Cash Flow Mortgages	1
GGD-92-7, Oct. 31, 1991	Resolution Trust Corporation: Effectiveness of Auction Sales Should Be Demonstrated	1
T-IMTEC-91-1, Oct. 16, 1990	Resolution Trust Corporation: Automation Efforts Need Management Attention[a]	2
GGD-91-138, Sept. 27, 1991	Resolution Trust Corporation: Progress Under Way in Minority- and Women-Owned Business Outreach Program[a]	1
GGD-91-121, Aug. 30, 1991	Resolution Trust Corporation: Progress Under Way in Minority and Women Outreach Program for Outside Counsel[a]	1
T-AFMD-90-15, Apr. 6, 1990	Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed[a]	1

[a]Action not responsive.

Summaries of GAO Products on RTC

GAO Products on RTC Asset Management and Disposition Activities

GAO Products on RTC Financial Management Issues

GAO Products on RTC Contracting and Contract Management

GAO Products on RTC Funding and Crosscutting Issues

GAO Products on RTC Conservatorships and Resolutions

GAO Products on RTC Information Resources Management

GAO Products on RTC Asset Management and Disposition Activities

Appraisal Reform: Implementation Status and Unresolved Issues (GAO/GGD-93-19, Oct. 30, 1993)

Background

Pursuant to a congressional request, GAO reviewed the implementation of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. This act requires that real estate appraisals for transactions involving the federal government be written reports that conform to uniform standards and be completed by certified professionals.

Findings

GAO found that (1) positive strides have been made at the federal and state levels to implement Title XI by the December 31, 1992, deadline; (2) all 50 states, the District of Columbia, and most U.S. territories have developed and implemented programs for licensing and certifying appraisers involved in federal transactions; (3) as of September 1992, over 59,000 appraisers nationwide had been state-licensed or -certified; (4) each of the federal financial institutions' regulatory agencies and the Resolution Trust Corporation have issued revised appraisal regulations and changed their thresholds for requiring a state-licensed or -certified appraiser to $100,000; and (5) several issues remain unresolved, including appraiser availability and appraisal cost, the appropriate de minimis threshold, standards for evaluating real estate-related financial transactions under the de minimis threshold, and state enforcement of appraisal standards.

Resolution Trust Corporation: Asset Management Systems (GAO/IMTEC-93-9R, Oct. 28, 1992)

Background

GAO provided information on the Resolution Trust Corporation's (RTC) management and use of three critical automated asset systems since the recent restructuring of its field operations.

Findings

GAO noted that (1) RTC has modified its Real Estate Owned Management System (REOMS) so that it now better meets the information and reporting needs of its corporate and field offices in the management and sale of real estate assets; (2) RTC terminated corporatewide development of its Loans and Other Assets Inventory System because of a greater emphasis on its loan securitization program; (3) RTC has begun to modify the Asset Manager System (AMS) to more efficiently account for the income and expenses of asset manager contractors, calculate their management and disposition fees, and control the electronic funds transfers between RTC and its asset managers; (4) as of January 1992, REOMS data included property records that were incomplete and inconsistent; (5) RTC does not have a corporatewide program to improve the data integrity of the ad hoc field office loan systems and contractor loan servicing systems it relies on to manage and sell its loan assets; and (6) until modifications are complete, AMS will likely continue to experience inadequate system interfaces between RTC and the asset managers to account for the contractors' income and expenses, insufficient security controls and reconciliation reports to ensure proper electronic funds transfers, and difficulty in calculating management and disposition fees for certain types of asset manager contracts.

Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs (GAO/GGD-93-2, Oct. 7, 1992)

Background

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 made RTC responsible for resolving failed financial institutions and disposing of their assets. In doing its job, RTC is required to rely on the private sector for asset management and disposition services if they are available and considered practical and efficient. Such contractors were entrusted with more than $31 billion in assets. GAO reviewed whether RTC portfolio development and management practices could be improved.

Findings

GAO found that (1) RTC paid millions of dollars in unearned fees to Standard Asset Management and Disposition Agreement (SAMDA) contractors because asset portfolios included real estate and loans that needed few or none of the services contemplated under SAMDA terms; (2) RTC paid substantial unearned disposition fees to SAMDA contractors for assets removed from portfolios because of direct sales by RTC, and RTC is potentially liable for millions more on removals that may result from planned RTC sales; (3) RTC consolidated offices developed inconsistent approaches to portfolio changes and payment of SAMDA fees because of SAMDA weaknesses and confusion over policy implementation; (4) because of weaknesses in its information and accounting systems, RTC did little to structure geographically concentrated portfolios; and (5) SAMDA contractors stated that portfolios with widespread asset locations increased contracting costs, hindered their ability to devote sufficient management attention to distant assets, reduced market knowledge, and made it difficult to monitor subcontractor performance.

Recommendations to Agencies

Recommendation 1

The President and Chief Executive Officer, RTC, should improve controls over assets included in future SAMDA portfolios by identifying and excluding (1) assets that would more appropriately be disposed of through direct RTC sales; (2) real estate that has already been sold or that is under contract for sale with imminent closings; and (3) loans that already have been paid by the borrowers or are nearly settled, and performing loans that will be managed by loan servicing contractors.

Status

No Action (open).

Status Change Date

4/13/93

Recommendation 2

The President and Chief Executive Officer, RTC, should revise SAMDA to clearly avoid the payment of unearned or duplicate fees to contractors entering into agreements with RTC in the future by including provisions covering removal of assets without payment of fees when post-award discoveries are made of assets requiring little or no services from the contractor.

Status

Agency completed (closed).

Status Change Date

4/13/93

Recommendation 3

The Chief Executive Officer, RTC, should renegotiate disposition fees payable to SAMDA contractors on assets included in sales center marketing efforts or sold through other direct RTC sales or disposition activities to avoid payments of unearned or duplicate fees.

Status

No Action (open).

Status Change Date

4/13/93

Recommendation 4

The Chief Executive Officer, RTC, should improve management controls over portfolio development and fee payments to ensure that RTC staff have adequate guidance on structuring and making changes to SAMDA portfolios and that they follow consistent practices in their treatment of SAMDA contractors.

Status

Action not responsive (open).

Status Change Date

4/13/93

Recommendation 5

The Chief Executive Officer, RTC, should resolve problems with information and accounting systems to ensure that they support effective asset management.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 6

The Chief Executive Officer, RTC, should encourage the transfer of management responsibility for assets between field offices to create geographically concentrated portfolios for new assets placed with contractors.

Status

Action not taken. RTC says its accounting system is institution specific and cannot break out properties by geographic location (open).

Status Change Date

4/13/93

Recommendation 7

The Chief Executive Officer, RTC, should ensure that adequate management controls are maintained over SAMDA contracts, particularly in view of the widespread asset and subcontractor locations that exist now.

Status

Action not yet taken (open).

Status Change Date

4/13/93

Resolution Trust Corporation: More Actions Needed to Improve Single-Family Affordable Housing Program (GAO/GGD-92-136, Sept. 29, 1992)

Background

GAO reviewed (1) RTC's progress in selling single-family houses under its Affordable Housing Disposition Program and (2) whether RTC controls are adequate to ensure that qualified purchasers buy and occupy the homes.

Findings

GAO found that (1) RTC lacks a consistent verification program to ensure that it sells homes only to eligible buyers; (2) the lack of complete, reliable data prevents RTC, Congress, and others from evaluating the program's results and RTC efforts to reach low-income families; (3) RTC recently issued a directive requiring buyers to prove that they are eligible to purchase the properties and implementing the requirement that a buyer own the purchased property for at least 1 year; (3) several RTC offices have begun identifying buyers who may have been ineligible to buy program houses or failed to reside in them after purchase; and (4) RTC has taken steps to improve the accuracy of data on prior sales.

Recommendations to Agencies

Recommendation 1

To further improve the effectiveness of the affordable housing program, the President and Chief Executive Officer, RTC, should implement corporationwide procedures and systems to monitor and oversee the implementation of the program directives and the performance of contractors providing services under the program, particularly the verification of documentary evidence submitted by buyers to support their eligibility to participate in the affordable housing program.

Status

Action not yet taken (open).

Status Change Date

4/13/93

Recommendation 2

The President and Chief Executive Officer, RTC, should implement a corporationwide postpurchase monitoring of sales to verify that buyers actually reside in the properties acquired.

Status

Action completed (closed).

Status Change Date

2/1/93

Recommendation 3

The President and Chief Executive Officer, RTC, should further develop policies, procedures, and remedies for resolving program violations.

Status

Action not yet taken (open).

Status Change Date

4/13/93

Recommendation 4

The President and Chief Executive Officer, RTC, should implement data collection controls to ensure data consistency and accurate reporting of sales data, especially for information necessary to evaluate RTC progress in achieving the program goals.

Status

Action in process (open).

Status Change Date

4/13/93

Resolution Trust Corporation: Affordable Multifamily Housing Program Has Improved but More Can Be Done (GAO/GGD-92-137, Sept. 29, 1992)

Background

GAO assessed the RTC's progress in (1) preserving affordable rental properties; (2) developing a national program and strategy for selling multifamily properties, including assisting nonprofit organizations and public agencies with special financing and price discounts; and (3) complying with statutory provisions pertaining to bulk and individual property sales.

Findings

GAO found that (1) RTC has not developed a well-defined, integrated multifamily program and has had limited success in preserving affordable housing for low-income families; (2) RTC field offices developed their own sales procedures and marketing processes; (3) RTC did not give its offices adequate guidance on comparing similar bids and, as a result, RTC completed sales that resulted in lost affordable housing units; (4) RTC was slow to implement the special financing and pricing options authorized by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) for nonprofit organizations and public agencies; (5) in May and June 1992 RTC published various rules, policies, and directives on marketing and sales of property under the affordable housing program; and (6) RTC bulk sale practices remain inconsistent with the applicable statute because they inhibit or prevent qualified multifamily purchasers from buying an individual property if RTC markets it as part of a bulk package.

Recommendations to Agencies

Recommendation 1

The President and Chief Executive Officer, RTC, should implement corporatewide procedures and systems to monitor and oversee the implementation of the program directives.

Status

Action not taken (open).

Status Change Date

4/13/93

Recommendation 2

The President and Chief Executive Officer, RTC, should amend the Affordable Housing Disposition Program rules to conform with the individual sales preference provision contained in section 21A(c) of the Federal Home Loan Bank Act (FHLBA).

Status

Action not yet taken (open).

Status Change Date

4/13/93

Recommendation 3

The President and Chief Executive Officer, RTC, should analyze bulk and individual sales methods to determine their effect on preserving affordable housing and on sales prices for properties in the program.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 4

The President and Chief Executive Officer, RTC, should, if after conducting an appropriate analysis, empirical data show that affordable housing can best be preserved through bulk sales, seek an appropriate amendment to this provision of the law.

Status

Agency reviewed analysis and disagrees with GAO. Action not yet taken (open).

Status Change Date

4/13/93

Resolution Trust Corporation: Survey Results on RTC's Communication and Real Estate Marketing (GAO/GGD-92-134BR, Sept. 24, 1992)

Background

GAO surveyed RTC staff and private realtors who specialize in industrial and office real estate to assess RTC responsiveness to requests about its real estate properties.

Findings

GAO found that (1) RTC sales center staff reported that they had taken steps to establish good working relationships with the private sector; (2) RTC sales center staff had real estate experience in the local market and established outreach programs to provide information on properties and assist purchasers; (3) industrial realtors reported that RTC personnel lacked knowledge of local markets and did not timely provide information or respond to purchase offers; (4) realtors believed that RTC information dissemination activities were ineffective; (5) many realtors believed that, over the 6-month period before survey completion, RTC had improved; (6) realtors had mixed views of RTC property management efforts; (7) realtors did not use such RTC marketing tools as diskettes listing RTC inventory, preferring such traditional methods as newspaper advertising, direct mailings, and multiple listing services; (8) as of April 1992, RTC has sold nearly $10 billion of its real estate assets; and (9) since 90 percent of the remaining assets are commercial, RTC needs to work closely with industrial and office realtors.

Recommendation to Agencies

Recommendation

RTC should make changes to its operations by developing strategies to improve the timeliness of its responses for information on its real estate inventory and ensuring that its staff and contractors establish good working relationships with the local real estate community.

Status

Action in process (open).

Status Change Date

4/13/93

Real Property Dispositions: Flexibility Afforded Agencies to Meet Disposition Objectives Varies (GAO/GGD-92-144FS, Sept. 18, 1992)

Summary

GAO reported in September 1991 (GAO/GGD-91-139FS) that the federal government employed a fragmented approach to managing and disposing of assets targeted for disposition. At that time, GAO indicated that federal agencies had assets—financial, real property, and personal property—valued in excess of $190 billion awaiting disposition. These assets included everything from property acquired from failed savings and loans to items seized from drug dealers.

Background

Pursuant to a congressional request, GAO provided information on federal government asset disposition, focusing on (1) disposition objectives (2) legislative mandates and (3) policy requirements that affect real property dispositions.

Findings

GAO found that (1) agencies that have the authority to dispose of real property also have the task of disposing of the properties quickly and at the highest price; (2) agencies do not have authority to operate at will in meeting their disposition objectives; (3) each agency operates under a set of programmatic requirements, and the requirements vary considerably by agency; (4) the Federal Deposit Insurance Corporation (FDIC) and the RTC dispose of assets of failing and failed financial institutions as either conservator or receiver; (5) 11 agencies reported having requirements to aid the homeless; (6) 5 agencies reported having requirements designed to make housing affordable for very low, low, and low moderate income families; (7) RTC and FDIC were the only two agencies that indicated they were not required to take specific steps to ensure protection of historic places and properties; (8) all 17 disposing agencies reported being covered by at least one environmental law, program, or executive order that impacted real property dispositions; and (9) agencies viewed requirements as either having no effect on or detracting from asset responsibilities.

Resolution Trust Corporation: Disposal of Furniture, Fixtures, and Equipment Needs Improvement (GAO/GGD-92-112, Aug. 13, 1992)

Background

Pursuant to a congressional request, GAO reviewed how RTC manages and disposes of furniture, fixtures, and equipment (FF&E), including such unusual assets as aircraft and artwork.

Findings

GAO found that (1) although RTC has developed policies and procedures for managing and disposing of FF&E, its controls over those assets do not ensure that they are disposed of economically and efficiently while maximizing revenues; (2) the RTC policy regarding donations of FF&E states that items determined to have nominal value should be donated to nonprofit organizations, but the policy does not define nominal value and is silent on when it would be more cost-effective to donate items before attempting to market them; (3) because inventories and appraisals are not always done promptly, marketing of FF&E is also hampered, and RTC needs to ensure that it has adequate internal controls over high-risk assets that exceed the nominal value criteria; (4) the RTC nationwide inventory control system fails to give RTC an accurate and complete FF&E inventory because inventory remains on the system well after it had been sold and because there are mass deletions of inventory from the system without verification; and (5) although RTC has abandoned its national FF&E inventory system, it needs to develop accurate inventories at each thrift to help local officials quickly establish control over and dispose of those assets.

Recommendations to Agencies

Recommendation 1

RTC should ensure that marketing and disposition plans for FF&E assets adequately document the inventory appraisal, shipping, and storage costs used to select the most cost-effective disposition method.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 2

RTC should define nominal value in dollar terms for FF&E purposes.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 3

RTC should eliminate the requirement that nominal value FF&E assets must be marketed before they can be donated to nonprofit organizations or agencies, provided RTC determines that donating those assets would be more cost-effective than holding and selling them.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 4

RTC should permit low-value items that exceed the nominal value criteria but are in poor condition or outdated to be donated to nonprofit organizations or agencies, provided RTC determines that donating those assets would be more cost-effective than holding and selling them.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 5

RTC should strengthen the internal controls over FF&E assets at each thrift by setting a target for completing their inventory and appraisals after a thrift comes under RTC control and holding managing agents accountable for meeting the target date.

Status

Action in process (open).

Status Change Date

4/13/93

Restructuring Real Property Dispositions (GAO/GGD-92-26R, Aug. 6, 1992)

Background

GAO commented on the feasibility of restructuring the federal government's approach to managing and disposing of assets targeted for disposition.

Findings

GAO noted that (1) the six agencies it reviewed did not maintain comparable data on personnel costs associated with managing and disposing of real property; (2) some agencies were reluctant to provide estimates and others would not do so because they had no basis for making the estimates; and (3) due to the lack of reliable cost data, analysis would not produce information that would support restructuring recommendations.

Resolution Trust Corporation: Better Qualified Review Appraisers Needed (GAO/GGD-92-40BR, Apr. 23, 1992)

Background

Pursuant to a congressional request, GAO reviewed the qualifications of the review appraisers that RTC hired between October 1989 and June 1991.

Findings

GAO found that (1) RTC gives its consolidated and regional field offices considerable discretion in identifying the most qualified candidates for in-house review appraiser positions; (2) other than a general job description, RTC has no specific hiring criteria for in-house appraisers; (3) 69 percent of RTC review appraisers lack sufficient appraisal experience; (4) RTC does not require applicants to submit enough supporting data on their appraisal education and experience; (5) RTC headquarters has not provided leadership to its field offices in setting review appraiser qualification standards and hiring criteria; and (6) RTC has not been evaluating appraisers' performance.

Recommendations to Agencies

Recommendation 1

To improve the appraisal program, RTC should hire a senior executive level chief appraiser to manage and assess the appraisal program's execution.

Status

Action taken (closed).

Status Change Date

4/13/93

Recommendation 2

To improve the appraisal program, RTC should assess the appraisal skills and capabilities of the current review appraiser staff.

Status

Action taken. RTC found only 12 percent unqualified (closed).

Status Change Date

4/13/93

Recommendation 3

To improve the appraisal program, RTC should upgrade the skills and capabilities of any underqualified review appraisers as rapidly as feasible.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 4

To improve the appraisal program, RTC should develop and implement detailed qualification standards and hiring criteria to ensure that qualified personnel are hired.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 5

To improve the appraisal program, RTC should require more complete data from applicants to support their appraisal-related educational background and experience.

Status

Action not yet taken. List of minimum requirements sent to Personnel Department. However, no indication they have been adopted (open).

Status Change Date

4/13/93

Supplemental Information on Portfolio Sales (GAO/GGD-92-5R, Apr. 1, 1992)

Background

Pursuant to a congressional request, GAO provided supplemental information about the disposition of failed banks' assets, including portfolio sales of participating cash flow mortgages. GAO also provided responses to questions regarding the staff study of a specific bank's transactions and the overall strengths and weaknesses of the concept of portfolio sales.

Findings

GAO believes that (1) the use of portfolio sales using participating cash flow mortgages could be an important disposition strategy for RTC's least marketable real estate assets and (2) further RTC actions are necessary to improve the pilot portfolio sales and any future transactions.

Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992)

Background

Pursuant to a congressional request, GAO provided information on (1) the General Services Administration's (GSA) efforts to consider and purchase buildings and other real property from RTC and the Federal Deposit Insurance Corporation (FDIC) and (2) any obstacles that could prevent GSA from purchasing such properties.

Findings

GAO found that (1) in June 1991, GSA proposed that RTC establish a formal working agreement with it to facilitate the identification, consideration, and purchase of available RTC properties; (2) RTC expressed concern regarding its ability to give GSA special concessions because of its fiduciary responsibilities, and proposed that it and GSA try a few sales before adopting a formal agreement; (3) in December 1991, RTC provided GSA with a list of potentially suitable properties; (4) as of January 1992, GSA had not purchased any RTC or FDIC properties and had been slow in identifying and considering potential properties; (5) GSA plans to consider available FDIC properties after it concentrates on available RTC properties; (6) GSA chose to concentrate on RTC properties first because RTC controls more commercial properties than FDIC and Congress directed GSA to coordinate with RTC; and (7) obstacles that could impede GSA ability to purchase properties held by RTC, FDIC, and other sellers include funding and budgetary limitations, a lack of a comprehensive strategic approach for meeting federal space needs, and a lack of GSA discretionary building purchase authority.

Resolution Trust Corporation: Assessing Portfolio Sales Using Participating Cash Flow Mortgages (GAO/GGD-92-33BR, Feb. 1, 1992)

Background

Pursuant to a congressional request, GAO reviewed RTC's pilot program of portfolio sales using participating cash-flow mortgages.

Findings

GAO found that (1) as of September 30, 1991, $45 billion of the $147 billion in assets that RTC held in inventory from failed thrifts were in such hard-to-sell assets as delinquent loans and commercial real estate; (2) commercial real estate and land accounted for about $15.7 billion of RTC assets; (3) RTC uses portfolio sales to sell its real estate assets; (4) by the end of fiscal year 1991, RTC had sold $6.2 billion in real estate assets, including $4.4 billion of commercial real estate and land; and (5) the RTC portfolio sales policy states that RTC may solicit, evaluate, and negotiate purchase offers for portfolio sales of real estate, delinquent loans, and other liquified assets. GAO believes that (1) the large inventory of assets and anticipated future additions will require RTC to develop creative and innovative strategies to sell those assets; (2) the use of portfolio sales using participating cash-flow mortgages could be an important disposition strategy for the least marketable real estate assets and reflects RTC willingness to become more innovative and market responsive; and (3) overall, the strengths of the pilot portfolio using participating cash-flow mortgages outweigh the weaknesses.

Recommendations to Agencies

Recommendation 1

RTC should perform a post-closing assessment of the pilot transactions to determine if all policy and transaction requirements were complied with and if the transactions have the potential to meet RTC financial objectives.

Status

Action not yet taken (open).

Although RTC has closed on three assets in the pilot transaction with Patriot American Investors, the transaction is still ongoing with additional assets to be purchased. The post-closing assessment cannot be performed until the transaction is completed.

Status Change Date

4/13/93

Recommendation 2

RTC should develop detailed oversight procedures for loan monitoring and administration, centralize oversight responsibility, and implement an oversight process in a timely manner. The oversight process should be implemented prior to the completion of the pilot transactions. These actions should enable RTC to closely monitor completed portfolio sales using participating cash-flow mortgages in order to protect RTC long-term interests.

Status

Action in process (open).

Per a letter dated May 26, 1992, RTC is in the process of establishing servicing and oversight policies and procedures including (1) utilizing existing RTC loan servicers to service the pilot transactions on an interim basis; (2) establishing a loan servicing program for the long-term administration of the portfolio sales; and (3) developing a loan servicer oversight program.

Status Change Date

4/13/93

Recommendation 3

RTC should determine how it will account for the loan assets that it receives as a result of the pilot transactions and whether any allowance for potential future loss is required.

Status

Action in process (open).

Per a letter dated May 26, 1992, RTC is in the process of developing policies and procedures with regard to accounting for loan assets resulting from portfolio sales. RTC also states that every potential and contingent liability will be considered in the loan loss reserve calculations and will be reflected in RTC corporate reporting.

Status Change Date

4/13/93

Resolution Trust Corporation: Recoveries on Asset Sales (GAO/GGD-92-36FS, Jan. 8, 1992)

Background

This report focuses on the costs of resolving failed thrifts. GAO was asked to (1) assess a recent Los Angeles Times article's conclusion that RTC will lose 40 cents per dollar on assets sales, (2) determine whether RTC has enough information on actual sales values to date, and (3) assess whether RTC needs additional funds because of the estimated recoveries.

Findings

GAO found that (1) the newspaper article accurately concluded that the variance between the book value of failed thrifts' assets and their actual sales price could add billions of dollars to the cost of resolving the thrift industry crisis; (2) as of December 31, 1990, RTC used an overall estimated recovery value of about 65 cents per dollar to record estimated losses on receivership assets but revised this value to about 60 cents in June 1991 to reflect current market value cost estimates; (3) as of December 31, 1990, RTC recorded a total of about $100 billion as the estimated loss for all receiverships, conservatorships, and institutions that will probably require government assistance and are expected to be transferred to RTC; (4) although RTC lacks sufficient historical sales experience to evaluate the reasonableness of asset recovery estimates, it is developing five automated systems to provide pertinent sales valuation data; (5) RTC realized an average of 64 cents per dollar of real estate sold, residential property yielded 72 cents per dollar, and commercial property and land yielded 61 cents and 59 cents per dollar, respectively; and (6) the amount of additional funding RTC will require to cover the cost of resolving the thrift industry crisis depends on such factors as the outcome of economic uncertainties, assets' recovery values, and the number and timing of additional thrift failures.

Resolution Trust Corporation: Proposed Tax Credit Would Add to Government's Cost of Selling RTC Assets (GAO/GGD-92-14BR, Nov. 1, 1991)

Background

Pursuant to a congressional request, GAO reviewed whether a tax credit would facilitate the sale of distressed property held by RTC, focusing on (1) the cost-effectiveness of a tax credit program that would begin on January 1, 1992, and have a cap of $1 billion and (2) RTC strategies to dispose of properties by lowering their prices and using other available alternatives.

The tax credit would be earned in five equal installments, and it would have a present value of up to 80 percent of the purchase price plus the cost of necessary rehabilitation of the applicable RTC property.

Findings

GAO found that (1) the government would lose about $127 million on a present-value basis with the proposed $1 billion tax credit program; (2) although the tax credit would increase sales revenue to RTC, the lost revenues to the Department of the Treasury would exceed the increase in sales; (3) although a private study concluded that the proposed RTC tax credit would have a benefit-to-cost ratio of almost two to one compared to the alternative of holding property in inventory for 5 years for eventual sale, this alternative was not a realistic basis on which to analyze the tax credit, since the current RTC policy is to sell properties soon after acquisition by setting price to market value; (4) RTC programs in place to dispose of its real estate properties include reducing prices to reflect current market values and providing seller financing; (5) if Congress decides to enact the RTC tax credit program, the tax credit should be reduced from 80 percent to 30 percent of the present value of the purchase price and the number of years to claim the tax credit should be increased from 5 to 10 years; and (6) to protect the financial interest of RTC, the tax credit proposal should provide for full recapture of the tax credits and penalties if RTC forecloses properties previously sold with tax credits attached to them and limit the fees that the syndicators would be able to receive from the sale of tax credit participations to private investors.

Resolution Trust Corporation: Effectiveness of Auction Sales Should Be Demonstrated (GAO/GGD-92-7, Oct. 31, 1991)

Background

Pursuant to a congressional request, GAO provided information on RTC's national satellite auction, focusing on whether (1) the auction program design was conceptually sound and (2) auctions were a viable and effective method for selling real estate assets.

Findings

GAO found that (1) the RTC auction approach includes elements that should provide an adequate foundation for ensuring that auctions are a productive way to sell assets; (2) the RTC auction program hired experienced people to run the auction industry program, established communication lines within RTC and to the public, and established a private-sector outreach effort for the auction program; (3) although RTC believes auctions can be an effective way to sell many types of real estate assets quickly and at a good price, there is uncertainty about the viability of auctions, since there has not been enough analysis to determine whether auctions are more effective in maximizing returns than the more commonly used brokered sales approach; and (4) RTC eventually plans to compare the results of different sales methods with the auction approach, which could help RTC respond to criticism that brokered or other approaches work better than auctions because they produce higher returns.

Recommendation to Agencies

Recommendation

RTC should determine the effectiveness of auctions used to sell its real estate by comparing a sample of the results of auction sales with results realized on various other sales methods, particularly sales by brokers.

Status

Action not yet initiated (open).

Status Change Date

4/13/93

Asset Management: Governmentwide Asset Disposition Activities (GAO/GGD-91-139FS, Sept. 27, 1991)

Background

Pursuant to a congressional request, GAO examined the extent of federal government involvement in asset disposition activities.

Findings

GAO found that (1) 22 agencies reported having assets targeted for disposition valued at $193 billion at the end of fiscal year 1990; (2) RTC and the Federal Deposit Insurance Corporation (FDIC) held over 72 percent of the $193 billion in the form of financial assets, the Department of Housing and Urban Development held 15 percent in the form of real property, the General Services Administration, FDIC, and the Defense Logistics Agency held 12 percent in the form of personal property; and (3) agencies reported similar methods of managing and maintaining assets before disposition, despite the many different laws and regulations related to asset disposition and oversight by 25 congressional committees.

Property Disposition: Information on Federal Single-Family Properties (GAO/RCED-91-69, Mar. 29, 1991)

Background

Pursuant to a congressional request, GAO reviewed single-family property disposition activities of the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Farmers Home Administration (FmHA), and RTC, focusing on (1) the number of single-family properties acquired and sold, the losses associated with those sales, and current inventories and their geographical distribution and (2) each agency's procedures for managing and selling single-family properties.

Findings

GAO found that (1) FHA, VA, and FmHA actively pursued their property disposition functions; (2) from fiscal year 1989 through fiscal year 1990, those agencies acquired about 606,000 single-family homes and sold nearly 595,000, with losses totalling more than $11.4 billion; (3) although overall sales lagged behind acquisitions from 1986 through 1988, sales exceeded acquisitions in 1989; (4) in fiscal year 1990, sales outpaced acquisitions by more than 10,000 properties, resulting in an ending inventory of 62,000 properties, the lowest since 1986; (5) RTC managed and sold assets of failed federally insured savings and institutions, adding nearly 27,000 single-family properties to the federal total; (6) from January to September 1990, RTC sold nearly 11,200 single-family properties; (7) inventory levels of single-family properties at the end of fiscal year 1990 were higher in states where there had been an economic turndown; (8) the four agencies similarly disposed of single-family properties, although some procedural variations existed; and (9) private-sector brokers performed most management and sales activities under the oversight of agencies' field office staff.

Resolution Trust Corporation: Real Estate Activities in Austin, Texas (GAO/GGD-91-11FS, Nov. 15, 1990)

Background

Pursuant to a congressional request, GAO reviewed RTC's real estate holdings and property management activities in Austin, Texas.

Findings

GAO found that (1) as of June 30, 1990, 4 thrifts in the review area, with total assets of $811 million, were in the RTC conservatorship program; (2) as of March 31, 1990, 2,300 properties in the review area were listed in the RTC real estate inventory; (3) as of March 31, 1990, RTC had sold approximately 136 properties, 3 of which were for $1 million or more; (4) as of August 8, 1990, 2,587 brokers had registered with RTC to handle its properties in the review area, and as of July 31, 1990, RTC had disqualified none of the brokers; (5) as of March 31, 1990, RTC had employed property managers to manage 60 of the 92 high-value properties in the review area; and (6) fees RTC paid over a typical 1-month period for management services ranged from $50 for a single-family home to $6,833 for a hotel.

Resolution Trust Corporation: Real Estate Activities in Houston, Texas (GAO/GGD-91-16FS, Nov. 13, 1990)

Background

Pursuant to a congressional request, GAO reviewed RTC's activities in Houston, Texas, focusing on (1) thrifts and real estate assets placed under RTC control; (2) high-value real estate property managers and their salaries; (3) real estate assets that RTC sold and the purchasers of sales over $1 million; and (4) the number of real estate agents that RTC qualified for contracts and, for those disqualified, the reasons why.

Findings

GAO found that (1) there were 5 RTC-controlled thrifts in the review area, with total assets of about $3.8 billion; (2) as of March 31, 1990, the RTC real estate inventory listed approximately 1,614 properties in the review area; (3) as of March 31, 1990, RTC had sold 195 properties, with 10 sales of $1 million or more; (4) as of August 8, 1990, 2,598 brokers were registered to handle RTC-controlled property; (5) as of March 31, 1990, RTC had employed property managers to manage 79 of 138 high-value assets, with management fees and contracts varying by property; and (6) RTC monthly payments for management services ranged from $300 for a commercial office building to $5,500 for an apartment complex, and the remaining assets did not necessitate ongoing management or oversight. GAO also found that (1) RTC procedures did not require real estate agents to register, but did require brokers to register with it, since state laws and regulations required agents to work through licensed brokers and (2) as of July 31, 1990, RTC had not disqualified any brokers or contractors interested in handling RTC property.

Resolution Trust Corporation: Real Estate Activities in North Little Rock, Arkansas (GAO/GGD-91-15FS, Nov. 13, 1990)

Background

Pursuant to a congressional request, GAO provided information on RTC's real estate holdings and property management activities in North Little Rock, Arkansas, focusing on (1) thrifts and real estate assets placed under RTC control; (2) the sale and purchase of real estate assets; (3) the number of real estate agents qualified or disqualified for RTC contracts and reasons for disqualification; and (4) high-value real estate property managers and their salaries.

Findings

GAO found that (1) RTC had no thrifts under supervision in the review area but had seven real estate assets that were owned by RTC-controlled thrifts located elsewhere; (2) RTC-controlled thrifts sold six assets in the review area; (3) RTC did not require registration of real estate agents due to existing state laws and regulations but did require registration of real estate brokers interested in handling RTC property; and (4) RTC-controlled thrifts owned only one high-value real estate asset in the review area for which the owner contracted property management services.

Resolution Trust Corporation: Real Estate Activities in Southeast Pennsylvania (GAO/GGD-91-4FS, Nov. 9, 1990)

Background

Pursuant to a congressional request, GAO provided information on RTC's real estate holdings and property management activities in southeastern Pennsylvania, focusing on (1) thrifts and real estate assets placed under RTC control; (2) the names and salaries of high-value real estate property managers; (3) the sale and purchase of real estate assets; and (4) the number of real estate agents qualified or disqualified and reasons for disqualification.

Findings

GAO found that (1) RTC resolved one thrift in the review area under a purchase and assumption agreement in October 1989; (2) 5 of the resolved thrifts' 575 real estate assets under RTC control were located in the review area, and there were 2 other real estate assets under RTC control in the review area that were owned by thrifts located elsewhere; (3) RTC selected a property management firm but did not award a contract to cover several properties in eastern Pennsylvania; (4) RTC awarded a contract to determine the extent of environmental problems in some office buildings; and (5) RTC did not require registration of real estate agents due to existing state laws and regulation but did require registration of real estate brokers interested in handling RTC property.

Resolution Trust Corporation: Real Estate Activities in Pine Bluff, Arkansas (GAO/GGD-91-6FS, Nov. 9, 1990)

Background

Pursuant to a congressional request, GAO reviewed RTC's real estate holdings and property management activities in Pine Bluff, Arkansas.

Findings

GAO found that (1) RTC had nine Arkansas thrifts with total assets of about $2.6 billion in conservatorship, none of which were located in Pine Bluff, except for two conservatorships with branch offices in Pine Bluff; (2) as of June 30, 1990, RTC had not sold any of the 3 real estate assets, consisting of 23 properties, in the review area; (3) 26 of the 504 brokers registered with RTC to provide real estate brokerage services in Pine Bluff were located in Arkansas but not in Pine Bluff, and the remaining 478 were from other states; and (4) RTC had considerable problems with its real property inventory system and was in the process of developing and operating a new system for its automated real property inventory records.

Resolution Trust Corporation: Real Estate Activities in Bellevue, Washington (GAO/GGD-91-18FS, Nov. 9, 1990)

Background

Pursuant to a congressional request, GAO reviewed RTC's activities in Bellevue, Washington, focusing on (1) thrifts and real estate assets placed under RTC control; (2) high-value real estate property managers and their salaries; (3) real estate assets that RTC sold and the purchasers of sales over $1 million; and (4) the number of real estate agents that RTC qualified for contracts and the reasons why RTC disqualified some agents.

Findings

GAO found that (1) RTC did not control any thrifts in the review area; (2) RTC sold one property in the review area for $480,000, with net proceeds of $422,295; (3) as of March 31, 1990, the RTC real property inventory listed no real estate properties under RTC control in the review area; (4) as of August 8, 1990, 377 real estate brokers had registered with RTC to handle property in the review area; and (5) as of July 31, 1990, RTC had not disqualified any brokers from RTC work. GAO also found that RTC (1) did not require real estate agents to register with it because state laws and regulations required agents to work through licensed brokers, which RTC did require to register to handle its properties and (2) required contracting officers to determine potential contractors' qualifications and obtain additional ethics certifications each time it considered contract award.

Failed Thrifts: Better Controls Needed Over Furniture, Fixtures, and Equipment (GAO/GGD-90-87, May 25, 1990)

Background

Pursuant to a congressional request, GAO determined whether the Federal Savings and Loan Insurance Corporation (FSLIC) (1) efficiently and effectively disposed of furniture, fixtures, and equipment (FF&E) for thrift receiverships under its Southwest Plan and (2) appropriately took various receiverships' FF&E to furnish a regional FSLIC office.

Findings

GAO found that (1) after deducting expenses, FSLIC received about $57,000 for the sale of FF&E appraised at about $3.3 million, suggesting that FSLIC did not take appropriate steps to minimize costs or maximize revenue; (2) FSLIC did not expeditiously plan FF&E disposal; (3) FSLIC inappropriately procured disposal services totalling $2,054,177 on a noncompetitive basis; (4) FSLIC did not fulfill its responsibility for the management and liquidation of FF&E; (5) FSLIC did not have adequate internal controls over its FF&E inventory and did not pay receiverships for FF&E taken to furnish its regional offices; and (6) the Federal Deposit Insurance Corporation (FDIC) has almost completed compensating the receiverships for FF&E that FSLIC took, but neither FDIC nor RTC have documented specific organizationwide guidance for disposing of FF&E.

Recommendations to Agencies

Recommendation 1

To ensure the most profitable and efficient disposition of FF&E from failed financial institutions, the Chairmen of FDIC and the RTC Oversight Board should document specific organizationwide policies and procedures on control and disposition of FF&E covering such areas as planning, contracting, and internal control.

Status

FDIC: Action completed (closed).

FDIC made changes to its credit manual on bank and FF&E on December 31, 1991.

Status Change Date

09/22/92

Status

RTC: Action in process (open).

RTC is selecting a contractor to develop nationwide policies and procedures for the control and disposition of FF&E. No completion date has been set.

Status Change Date

04/13/92

Recommendation 2

To ensure the most profitable and efficient disposition of FF&E from failed financial institutions, the Chairmen of FDIC and the RTC Oversight Board should monitor the adherence to policies for control and disposition of FF&E.

Status

FDIC: Action completed (closed).

The FDIC ongoing oversight process incorporates a compliance check to ensure that written policies and procedures are being followed.

Status Change Date

09/22/92

Status

RTC: Action completed (closed).

RTC has developed national policies and procedures to handle these assets.

Status Change Date

09/22/92

Asset Management: Resolution Trust Corporation Needs to Build a Strong Foundation to Support Its Asset Disposition Efforts (GAO/T-GGD-90-38, May 4, 1990)

Background

GAO discussed RTC's progress in disposing of assets.

Findings

GAO found that (1) RTC was not ready to aggressively dispose of its assets but has reported liquidations of about $40 billion through sales, loan collections, and debt retirements; (2) RTC established a training task force to assess its overall training needs and identified areas in need of strengthening; (3) RTC was still developing some important implementing procedures in the assets disposition area related to contractor incentive strategies, contractor performance standards, and alternative methods for estimating market values; (4) RTC has been using the strategic plan's flexibility to identify and test several marketing strategies; (5) RTC has retained the services of an investment banking specialist and dealers in asset-backed securities and mortgages to help create an asset securitization program; (6) RTC planned to auction real estate; (7) RTC sought to retain a firm's services to help develop a national marketing strategy; and (8) in the future, RTC needs to focus on environmental issues, monitoring contracts, and keeping the strategic plan up to date.

GAO Products on RTC Financial Management Issues

Financial Audit: Resolution Trust Corporation's 1991 Management Letter (GAO/AFMD-92-90ML, Aug. 14, 1992)

Background

GAO reviewed RTC's internal control structures and procedures at its headquarters and consolidated offices.

Findings

GAO found that some consolidated offices (1) lacked adequate internal controls, (2) did not report variances in the asset reconciliation process, (3) often failed to promptly clear suspense accounts, (4) did not recalculate interest due on RTC cash advances, (5) lacked controls to detect duplicate payments, (6) often did not follow proper journal entry processing procedures, (7) incorrectly recorded account transactions, (8) did not post disbursement transactions in a timely way (9) had not properly segregated cashiering tasks, and (10) lacked accurate listings of jacket documents to support receiverships' beginning balances in settlement jacket files. GAO also found that RTC headquarters (1) did not reconcile some accounts properly or promptly, (2) processed corporate wire disbursements without required approval, (3) inconsistently used general ledger accounts, and (4) incorrectly recorded location codes and account numbers on administrative operating expense transactions, which could result in expense recovery errors.

Financial Audit: Savings Association Insurance Fund's 1991 and 1990 Financial Statements (GAO/AFMD-92-72, June 30, 1992)

Background

GAO audited the Savings Association Insurance Fund's financial statements for the years ended December 31, 1991, and 1990, and reviewed its internal control structure and compliance with applicable laws and regulations. The Fund was created in 1989 to provide deposit insurance to all federally insured savings associations and to thrift deposits acquired by banks. The Fund is administered by the Federal Deposit Insurance Corporation (FDIC) and will assume the full responsibility for resolving failed thrifts on October 1, 1993.

Findings

GAO found that (1) the financial statements presented fairly in all material respects the Fund's financial position at December 31, 1991, and 1990, and the results of its operations and cash flows for the years ended December 31, 1991, and 1990, in conformance with generally accepted accounting principles; (2) the Fund had two material weaknesses in its internal control structure that could potentially affect the financial statements—one related to FDIC's lack of a process for estimating potential insurance losses to the Fund due to small Oakar banks and one related to FDIC's lack of enforcement of time and attendance policies and procedures; and (3) FDIC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on the Fund's financial statements. The financial audit report cautioned that, although the thrift industry's condition improved in 1991, economic uncertainties make it difficult to predict the Fund's exposure to potential insurance losses.

Recommendations to Agencies

Recommendation 1

The Chairman, FDIC, should direct the Director, Division of Accounting and Corporate Services, to develop and implement procedures for performing an in-depth analysis of small Oakar banks to ensure that FDIC accurately estimates potential insurance losses for the Savings Association Insurance Fund.

Status

Action in process (open).

The FDIC Division of Accounting and Corporate Services has developed procedures to analyze small Oakar banks and expects to implement these procedures prior to issuance of its 1992 financial statements.

Status Change Date

4/13/93

Recommendation 2

The Chairman, FDIC, should direct FDIC division and office heads to enforce the policies and procedures documented in the FDIC Time and Attendance Reporting Directive to ensure that employees' time charges are valid and that payroll expenses are charged to the correct fund.

Status

Action in process (open).

The agency expects action to be completed by April 1993. The FDIC Office of Personnel Management is in the process of revising its Directive 2300.5 to strengthen the internal control and review process associated with documenting and reporting employee time and attendance. In addition, the FDIC Office of Training and Educational Services is developing a new time and attendance training course that stresses the importance of internal controls.

Status Change Date

4/13/93

Financial Audit: FSLIC Resolution Fund's 1991 and 1990 Financial Statements (GAO/AFMD-92-75, June 30, 1992)

Background

GAO audited the FSLIC Resolution Fund's financial statements for the years ended December 31, 1991, and 1990, and reviewed its internal control structure and compliance with applicable laws and regulations. The Fund was created in 1989 to manage and dispose of assets and to pay debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation. The Fund is administered by the Federal Deposit Insurance Corporation (FDIC).

Findings

GAO found that (1) the Fund's statement of financial position as of December 31, 1991, and its statements of cash flows for the years ended December 31, 1991, and 1990, presented fairly, in all material respects, the Fund's financial condition in conformance with generally accepted accounting principles; (2) the Fund had a material weakness in its internal control structure related to weak controls over FDIC's asset management information system and a nonmaterial reportable condition related to FDIC's lack of adherence to time and attendance reporting procedures; and (3) FDIC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on the Fund's financial statements. The financial audit report cautioned that, although the Fund's estimated future assistance payments and its estimated recoveries from asset sales were reasonable, uncertainties still existed regarding general economic conditions, such as the real estate markets and interest rates, that could result in higher losses than expected.

Financial Audit: Resolution Trust Corporation's 1991 and 1990 Financial Statements (GAO/AFMD-92-74, June 30, 1992)

Background

GAO audited RTC's financial statements for the years ended December 31, 1991, and 1990, and reviewed its internal control structure and compliance with applicable laws and regulations. RTC was created in 1989 to resolve the problems of failed thrift institutions previously insured by the Federal Savings and Loan Insurance Corporation and placed into conservatorship or receivership between January 1, 1989, and September 30, 1993.

Findings

GAO found that (1) RTC's statement of financial position as of December 31, 1991, and its statements of cash flows for the years ended December 31, 1991, and 1990, presented fairly, in all material respects, RTC's financial condition in conformance with generally accepted accounting principles; (2) RTC had a material weakness in its internal control structure related to the lack of documentation evidencing that internal controls over cash receipts and disbursements processing were in place and functioning as intended in RTC's receiverships; and (3) RTC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on RTC's financial statements. The audit report cautioned that, although RTC based its projections of recoveries on the best available information, economic uncertainties that are beyond its control could result in lower than projected recoveries and higher than estimated costs.

Financial Audit: Savings Association Insurance Fund's 1990 and 1989 Financial Statements (GAO/AFMD-92-21, Jan. 8, 1992)

Background

GAO reviewed the Savings Association Insurance Fund's (1) financial statements for the period August 9, 1989, through December 1989 and the year ended December 31, 1990, and (2) internal control structure and compliance with applicable laws and regulations.

Findings

GAO found that (1) the financial statements presented fairly, in all material respects, the Fund's financial position for the years ended December 31, 1990, and 1989, in conformity with generally accepted accounting principles; (2) the Fund will be responsible for resolving all federally insured thrifts placed into conservatorship or receivership through September 30, 1993; (3) the Fund complied with applicable laws and regulations; and (4) if there is still a significant number of thrifts in need of resolution after September 30, 1993, the Fund could be insolvent when it assumes its full resolution responsibility.

Financial Audit: FSLIC Resolution Fund's 1990 and 1989 Financial Statements (GAO/AFMD-92-22, Dec. 17, 1991)

Background

GAO audited the FSLIC Resolution Fund's financial statements for the periods ended December 31, 1990, and 1989, and reviewed its internal control structure and compliance with applicable laws and regulations. The Fund was created in 1989 to manage and dispose of assets and to pay debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation. The Fund is administered by the Federal Deposit Insurance Corporation (FDIC).

Findings

GAO found that, first, it was unable to express an opinion on the Fund's statements of financial position as of December 31, 1990 and 1989, or its statements of income and accumulated deficit for the periods ended December 31, 1990, and 1989, because it was unable to assess the reasonableness of the Fund's estimated liability for assisted institutions and its estimated recoveries from asset sales. Second, the Fund's statements of cash flows for the periods ended December 31, 1990, and 1989, did present fairly its cash flows in conformance with generally accepted accounting principles the Fund had a nonmaterial weakness in its internal control structure related to the inability of FDIC's accounting system to readily produce a statement of cash flows. And third, FDIC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on the Fund's financial statements.

Financial Audit: Resolution Trust Corporation's 1990 Financial Statements (GAO/AFMD-92-20, Oct. 25, 1991)

Background

GAO audited the RTC's financial statements for the year ended December 31, 1990, and reviewed its internal control structure and compliance with applicable laws and regulations. RTC was created in 1989 to resolve the problems of failed thrift institutions previously insured by the Federal Savings and Loan Insurance Corporation and placed into conservatorship or receivership between January 1, 1989, and September 30, 1993.

Findings

GAO was unable to express an opinion on RTC's 1990 statements of financial position and of revenue, expenses, and accumulated deficit because GAO was not able to assess the reasonableness of RTC's estimated recoveries from receiverships or its estimated liability for unresolved institutions. However, RTC's statement of cash flows for the year ended December 31, 1990, did present fairly its cash flows in conformance with generally accepted accounting principles. RTC had two material weaknesses in its internal control structure relating to the lack of strong controls over cash receipts and disbursements in its receiverships and the use of a flawed methodology for selecting and valuing receivership assets. RTC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on its financial statements. The financial audit report stressed that the amount of funding RTC would eventually require to complete the resolution of failed thrifts would depend on a number of factors, particularly the outcome of the uncertainties related to the economy, the recovery value of assets, and the number and timing of additional thrift failures.

Financial Audit: Resolution Trust Corporation's 1989 Financial Statements (GAO/AFMD-91-57, Apr. 4, 1991)

Background

GAO audited the RTC's financial statements for the period ended December 31, 1989, and reviewed its internal control structure and compliance with applicable laws and regulations. RTC was created in 1989 to resolve the problems of failed thrift institutions previously insured by the Federal Savings and Loan Insurance Corporation and placed into conservatorship or receivership between January 1, 1989, and September 30, 1993.

Findings

GAO found that (1) except for the effects that uncertainties may have on the cost of unresolved institutions and the expected recoveries from resolved institutions, RTC's 1989 financial statements presented fairly its financial condition in conformance with generally accepted accounting principles; (2) RTC's asset valuation procedures were subject to several weaknesses that made the resulting recovery estimates uncertain, including questionable appraisal practices, inappropriate use of conservatorship valuation reviews, and use of outdated receivership asset reviews; and (3) RTC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on its financial statements. The financial audit report stressed that RTC's actual recoveries from its receiverships could be lower than estimated if assets are found to be more impaired than anticipated.

Financial Audit: Resolution Funding Corporation's 1989 Financial Statements (GAO/AFMD-91-49, Apr. 2, 1991)

Background

GAO reviewed the Resolution Funding Corporation's audited financial statements for the period ending December 31, 1989. The Corporation was created in 1989 to raise funds, primarily through bond sales, for thrift resolution activities.

Findings

GAO found that (1) the financial statements, together with the independent public accountant's opinion and GAO's review of that work, provide Congress with a dependable basis for evaluating the Corporation's financial position; (2) based on the work performed, the independent public accountant properly expressed the opinion that the Corporation's balance sheet and the related statements of assessments, investment income, and expenses of capital and cash flows presented fairly, in all material respects, the financial condition of the Corporation for the period ended December 31, 1989; and (3) based on the work performed, the independent public accountant appropriately concluded that the Corporation did not have any material internal control weaknesses, reportable conditions, or noncompliances with laws and regulations. The financial audit report also stressed that using the Corporation to raise funds for RTC resulted in the Treasury incurring about $3 billion in interest costs that could have been avoided and that additional unnecessary interest costs would be incurred if the Corporation, or a similar entity, is used to raise funds for RTC.

Recommendation to Congress

Recommendation

Congress should provide additional funds to RTC so that resolutions of troubled thrifts can continue without undue interruption. For those additional funds that will be raised through borrowings, the Treasury should be authorized to issue the bonds directly in order to minimize interest costs.

Status

Action completed (closed).

Congress provided RTC with an additional $30 billion for resolution losses through a direct Treasury appropriation, thereby saving 0.3 percent, more than $2.5 billion in interest costs over the life of the loans.

Status Change Date

10/04/91

Financial Audit: Savings Association Insurance Fund's 1989 Financial Statements (GAO/AFMD-91-31, Mar. 1, 1991)

Background

GAO audited the Savings Association Insurance Fund's financial statements for the period ended December 31, 1989, and reviewed its internal control structure and compliance with applicable laws and regulations. The Fund was created in 1989 to provide deposit insurance to all federally insured savings associations and to thrift deposits acquired by banks. The Fund is administered by the Federal Deposit Insurance Corporation (FDIC).

Findings

GAO found that (1) the Fund's 1989 financial statements presented fairly, in all material respects, its financial condition for the period August 9, 1989, through December 31, 1989, in conformance with generally accepted accounting principles; (2) the Fund did not have any material internal control weaknesses or reportable conditions that would affect the reliability of its financial statements; and (3) FDIC complied with those laws and regulations GAO tested that, if not complied with, could have a material effect on the Fund's financial statements. The financial audit report stressed that if the Fund faces a significant backlog of failed institutions, it could be insolvent, or close to it, when it takes over resolution responsibility.

Financial Audit: Federal Savings and Loan Insurance Corporation's 1989 and 1988 Financial Statements (AFMD-90-79, July 17, 1990)

Background

GAO audited the FSLIC's financial statements for the periods ended August 8, 1989, and December 31, 1988, and reviewed its internal control structure and compliance with applicable laws and regulations.

Findings

GAO found that (1) except for the effects that uncertainties may have on the estimated liabilities for assisted institutions and unresolved institutions, FSLIC's financial statements presented fairly, in all material respects, its financial condition for the periods ended August 8, 1989, and December 31, 1988; (2) FSLIC did not have any material internal accounting control weaknesses or reportable conditions that would affect the reliability of its financial statements; and (3) FSLIC complied with the provisions of those laws and regulations GAO tested that, if not complied with, could have a material effect on its financial statements. The financial audit report disclosed that FSLIC reported in 1989 a capital deficit of $87 billion, the largest ever reported by a public or private corporation, and that up to $325 billion would be needed to complete the savings and loan industry cleanup.

Financial Audit: Federal Savings and Loan Insurance Corporation's 1988 and 1987 Financial Statements (GAO/AFMD-90-34, Oct. 31, 1989)

Background

GAO audited the FSLIC's financial statements for the years ended December 31, 1988, and 1987, and reviewed its internal control structure and compliance with applicable laws and regulations.

Findings

GAO found that (1) except for the effect that various uncertainties could have on the estimated allowances for assistance agreements and unresolved cases, FSLIC's financial statements presented fairly, in all material respects, its financial condition for the years ended December 31, 1988, and 1987; (2) FSLIC did not have any material internal accounting control weaknesses or reportable conditions that would affect the reliability of its financial statements; and (3) FSLIC complied with the provisions of those laws and regulations GAO tested that, if not complied with, could have a material effect on its financial statements. The financial audit report disclosed that FSLIC incurred a $66 billion net loss during 1988 and that $306 billion could be needed over the next 33 years to cover FSLIC resolution costs and debts, although the administration estimated the cost at $257 billion.

Financial Audit: Federal Savings and Loan Insurance Corporation's 1989 Financial Statements (GAO/AFMD-91-69, Mar. 28, 1991)

Background

GAO audited the FSLIC Resolution Fund's financial statements for the period ended December 31, 1989, and reviewed its internal control structure and compliance with applicable laws and regulations. The Fund was created in 1989 to manage and dispose of assets and to pay debts, obligations, contracts, and other liabilities resulting from thrift resolution actions initiated by the former Federal Savings and Loan Insurance Corporation. The Fund is administered by the Federal Deposit Insurance Corporation (FDIC).

Findings

GAO found that it was unable to express an opinion on the Fund's statements of financial position as of December 31, 1989, and August 9, 1989, and its statements of income and accumulated deficit for the period August 8, 1989, through December 31, 1989, because it was unable to assess the reasonableness of the Fund's estimated liability for assisted institutions and its estimated recoveries from asset sales. However, the Fund's statement of cash flows for the period ended December 31, 1989, did present fairly its cash flows in conformance with generally accepted accounting principles. The Fund had two nonmaterial internal control weaknesses related to the inability of FDIC's accounting system to readily produce a statement of cash flows and the lack of sufficient documentation supporting some of the Fund's corporate owned assets. FDIC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on the Fund's financial statements.

GAO Products on RTC Contracting and Contract Management

Resolution Trust Corporation: Subcontractor Cash Management Practices Violate Policy and Reduce Income (GAO/GGD-93-7, Oct. 20, 1992)

Background

GAO reviewed (1) weaknesses in RTC's Standard Asset Management and Disposition Agreement (SAMDA) subcontractors' cash management practices and (2) RTC policy on using interest-bearing bank accounts.

Findings

GAO found that (1) RTC policy requires that SAMDA contractors and subcontractors deposit all funds from asset management-related activities into a receipt account and make all asset-related expenditures from disbursement accounts; (2) 82 percent of SAMDA subcontractors used one account for both activities; (3) some subcontractors were using cash generated from RTC properties to pay expenses; (4) this policy makes it difficult for RTC to fully account for and verify asset-related receipts and disbursements and adequately protect the assets from loss due to waste, fraud, and abuse; (5) RTC field offices were not ensuring that SAMDA contractors were complying with its policy governing the use of cash generated from RTC properties; (6) SAMDA contractors are required to open interest-bearing operating accounts, but SAMDA subcontractors are not; and (7) $111,000 in interest income would have been earned if SAMDA subcontractors had been required to open interest-bearing accounts from January 1991 through February 1992.

Recommendation 1

The President and Chief Executive Officer, RTC, should improve oversight of SAMDA contractors and their property management subcontractors to better ensure that they comply with RTC policy governing the use and control of cash. This should include requiring that SAMDA contractors report to the RTC oversight managers on whether their property management subcontractors (1) have established separate cash receipt and disbursement accounts, (2) are properly using cash received from asset management and disposition activities, and (3) have adequate accounting for total receipts and disbursements.

Status

Action in process (open).

Status Change Date

4/13/93

Recommendation 2

The President and Chief Executive Officer, RTC, should revise the RTC policy and SAMDA contracts to require that property management subcontractors establish interest-bearing operating accounts for RTC assets, with the interest accruing to RTC.

Status

Action in process (open).

Status Change Date

4/13/93

Private Attorneys: Information on the Federal Government's Use of Private Attorneys (GAO/GGD-93-17FS, Oct. 20, 1992)

Background

Pursuant to a congressional request, GAO provided information on the federal government's use of private attorneys, focusing on (1) the authorities agencies cite to contract for legal services and (2) attorneys' fees awarded to prevailing parties.

Findings

GAO found that (1) 59 agencies reported awarding 4,567 contracts and paying $587 million for legal services during fiscal year 1991; (2) 123 of the 147 agencies providing information reported that they had authority to contract for legal services; (3) the largest users of contracted legal services were the Federal Deposit Insurance Corporation, followed by the Administrative Office of the United States Courts' appointments of private attorneys under the Criminal Justice Act; (4) reasons given by agencies for using private attorneys included the need for expertise, cost savings, legislative mandates, local court rules requiring the use of private attorneys, and emergencies dictating the use of such services; (5) during fiscal year 1991, 2,200 awards and $26 million in attorneys' fees were paid to prevailing parties; (6) 70 percent of payments resulted from judicial proceedings, and the remaining resulted from administrative proceedings; and (7) the Judicial Conference of the United States concluded that a governmentwide limitation on the use of private attorneys was inadvisable because it might prevent the government from obtaining high-quality legal services.

Resolution Trust Corporation: Western Storm Investigation and Related Contracting Deficiencies (GAO/T-GGD-92-67, Aug. 6, 1992)

Background

RTC is required to work with the private sector in disposing of assets of failed savings and loans. GAO testified that RTC had undervalued contracting in acquiring needed services. This mindset contributed to problems with the Western Storm Project, in which RTC paid about $24 million for an improperly issued sole-source contract to reconcile assets of 92 failed thrifts in western states to financial records. In addition, a contractor representative spent three days in preaward discussions with RTC officials on the upcoming project's scope and duration. Senior RTC officials knew of these irregularities but did nothing. RTC needs to take strong action to ensure that its employees are complying with policies and that contractors are providing the best possible services. Unfortunately, efforts to strengthen internal control over contracts have not kept pace with RTC's burgeoning responsibilities. If RTC is to assure Congress and the taxpayers that it is minimizing the cost of the savings and loan bailout, it should act promptly to install appropriate controls over its contracting program.

Findings

GAO discussed its investigation of RTC's contracting procedures, focusing on the RTC Western Storm Project. GAO noted that (1) RTC does not have a good, sound contracting process because RTC undervalues the significance of contracting; (2) the RTC staff's failure to plan for the project and to follow RTC contracting procedures led to excessive costs and inadequately trained contractor personnel; (3) RTC regional staff bypassed fundamental internal controls and failed to consult RTC legal and contracting experts before writing the contract; (4) RTC project management and oversight were weak because regional staff failed to budget for each site and designate sufficient staff to supervise contractor personnel, and headquarters officials did not monitor the project; (5) RTC has no system to provide performance information on contractors; (6) in March 1992, RTC officials agreed to improve its contracting and internal control system and to correct other deficiencies; and (7) although some improvement in the contracting system has occurred, RTC still has deficiencies in its contracting procedures.

Executive Furniture: Financial Regulatory Agencies' Procurement Policies (GAO/GGD-92-102, June 29, 1992)

Background

Pursuant to a congressional request, GAO reviewed whether the Office of the Comptroller of the Currency (OCC) and other financial regulatory agencies, such as the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRB), the Office of Thrift Supervision (OTS), RTC, and the Securities and Exchange Commission (SEC), have procurement guidelines to prevent purchases of excessively priced executive furniture.

Findings

GAO found that (1) there were three criteria to prevent purchases of excessively priced executive furniture and protect the government from projecting an image of extravagance in its office furnishings; (2) all six agencies incorporate the three criteria, which include using the Federal Supply Schedule for smaller purchases and competitive acquisition methods for larger purchases, limiting furniture purchases to those requirements considered essential, and prohibiting the purchase of top-of-the-line furniture; (3) OTS does not have a policy to prohibit the purchase of excessively priced executive furniture; (4) SEC and FRB do not have policies specifically prohibiting the purchase of top-of-the-line executive furniture, although SEC prohibits its presidential appointees and FRB prohibits all of its employees from spending more than $5,000 on new furniture; and (5) SEC and FRB officials believe those limits effectively bar the purchase of top-of-the-line executive furniture.

Resolution Trust Corporation: Oversight of Certain Loan Servicers Needs Improvement (GAO/GGD-92-76, Apr. 24, 1992)

Summary

RTC relies on commercial banks, thrifts, and mortgage companies to help service its inventory of mortgages and loans. In December 1991, these institutions—known as inherited third-party servicers—serviced more than 300,000 mortgages and loans, which is more than one-third of RTC's total inventory of mortgages and loans held by thrifts in receivership. These servicers are to collect and remit to RTC millions of dollars in principal and interest payments each month.

Background

GAO assessed (1) RTC's oversight of inherited loan servicers that service the RTC inventory of mortgages and loans from failed thrifts and (2) the adequacy of RTC policies and procedures for monitoring the servicers' loan collection activities.

Findings

GAO found that (1) RTC does not adequately oversee its inherited loan servicers, who service $7.5 billion in RTC mortgages and loans; (2) RTC does not have the necessary policies and procedures in place to monitor the servicers' loan collection activities; (3) RTC cannot ensure that servicers are accurately accounting for and remitting loan payments or if its servicers are sound financial institutions that are able to maintain the value and marketability of RTC mortgages and loans; (4) some of the servicers do not meet reasonable loan standards; (5) in September 1991, the Federal National Mortgage Association considered 84 of 298 institutions servicing loans in Florida ineligible to service RTC mortgages; and (6) RTC is planning to address those issues, but its progress has been slow.

Recommendations to Agencies

Recommendation 1

To improve the oversight of inherited loan servicers, the President and Chief Executive Officer, RTC, should move quickly to compile a national inventory of inherited loan servicers.

Status

Action in process (open).

RTC is compiling an inventory of inherited loan servicers.

Status Change Date

4/13/93

Recommendation 2

To improve the oversight of inherited loan servicers, the President and Chief Executive Officer, RTC, should ensure that it has policies and procedures in place to monitor and periodically evaluate the servicers' loan collection activities, financial conditions, and overall performance.

Status

Action in process (open).

All inherited loan servicers will be required to report to a master loan servicer who will provide first level review and oversight. A Loan Servicer Oversight Program directive is being drafted. The Office of Contractor Oversight and Surveillance (OCOS) is implementing comprehensive national performance and compliance reviews for all loan servicers and subservicers.

Status Change Date

4/13/93

Resolution Trust Corporation: Further Actions Needed to Implement Contracting Management Initiatives (GAO/GGD-92-47, Mar. 5, 1992)

Background

Pursuant to a legislative requirement, GAO reviewed the (1) status of RTC efforts to incorporate contracting system reforms and (2) changes affecting the contractor selection process and the evaluation of proposals submitted by contractors competing for standard asset management and disposition agreement (SAMDA) contracts.

Findings

GAO found that (1) by February 1992, RTC had made substantial progress in developing a policies and procedures manual, defining contracting roles and responsibilities, and developing standardized contract solicitation documents for the SAMDA contracting process, as the RTC Funding Act of 1991 required; (2) RTC has nearly completed realigning its organizational structure to provide better separation of duties between contracting and program staff; (3) RTC also standardized its forms and procedures for reviewing SAMDA contract proposals and for analyzing proposed contract fees; (4) RTC field staff in different offices do not uniformly evaluate the technical competency of potential SAMDA contractors and lack guidelines for evaluating the financial capability for all types of potential contractors; (5) only 63 percent of the contracting personnel at the six consolidated offices visited had experience in contracting before accepting positions with RTC, although the act directed RTC to develop training programs specifically for RTC and private contracting staff; and (6) RTC needs to complete the development of its contracting training courses and accelerate the training in order to ensure that the best contractors will be hired to assist in the disposal of failed thrifts' assets.

Recommendations to Agencies

Recommendation 1

The President and Chief Executive Officer, RTC, should develop desk guides to help field staff implement contracting policies and procedures properly and consistently.

Status

Action in process (open).

Status Change Date

4/6/93

Recommendation 2

The President and Chief Executive Officer, RTC, should develop uniform source selection plans criteria and standards for documenting selection decisions.

Status

Action completed. Financial savings or nonfinancial benefits will be achieved. Exhibit W to the RTC Contract Policies and Procedures Manual revision issued in May 1992 provides the evaluation standards (closed).

Status Change Date

9/23/92

Recommendation 3

The President and Chief Executive Officer, RTC, should issue interim guidelines for performing all financial capability evaluations as soon as possible and place a high priority on developing uniform, permanent procedures.

Status

Action in process. The manual is being drafted and should be complete by April 1993 (open).

Status Change Date

4/13/93

Recommendation 4

The President and Chief Executive Officer, RTC, should accelerate the development and implementation of contracting training programs.

Status

Action in process (open).

RTC is currently providing the training to its staff and expects this training to be completed by April 1993.

Status Change Date

4/13/93

Resolution Trust Corporation: Preliminary Results of Western Storm Investigation and Related Contracting Deficiencies (GAO/T-OSI-92-5, T-GGD-92-16, Mar. 3, 1992)

Summary

The main goal of the Western Storm Project was to reconcile the assets of 92 failed thrifts to the financial management records in RTC's Western Region. GAO testified that lack of early planning and inappropriate contracting techniques hampered RTC's ability to monitor contractor performance and control project costs for Western Storm. Specifically, RTC will have paid about $24 million under a contract improperly issued on a sole-source basis. In addition, a contractor representative participated in three days of pre-award discussions with RTC officials about the upcoming project's scope and duration. Senior RTC officials knew about the contracting procedures used but did not ask for advice on the appropriateness of the procurement procedure or require appropriate written justification and approval.

Background

GAO discussed its ongoing investigation into contracting practices at RTC's Western Regional Office, focusing on its Asset Stratification and Reconciliation Project (Western Storm) designed to reconcile the asset records of 92 failed thrifts with the region's accounting records.

Findings

GAO noted that the region (1) approved and paid contractor personnel for long work hours but lacked the procedures to verify the validity of such charges; (2) did not put a cap on travel and per diem expenses or offer contractors any incentives to minimize travel-related costs; (3) lacked the internal controls to verify contractor travel vouchers; (4) did not perform any pilot studies to help define the project or develop a written plan or an adequate methodology for carrying out the project; (5) improperly issued the contract as a sole-source procurement; and (6) did not prepare a budget for each institution. GAO also noted that (1) senior RTC officials did not require the region to write a project justification for Western Storm; (2) the contractor had an excessive gross profit margin of 21.6 percent; (3) RTC had little or no knowledge or expertise in the design and implementation of large contracting systems and did not seek the advice of experts; (4) RTC has made some progress in correcting deficiencies in its contracting system but has made little progress on implementing effective contractor oversight and contract administration; and (5) the RTC Contracting Activity Reporting System does not provide the performance information needed to adequately manage RTC contracting.

Resolution Trust Corporation: Progress Under Way in Minority- and Women-Owned Business Outreach Program (GAO/GGD-91-138, Sept. 27, 1991)

Background

Pursuant to a congressional request, GAO reviewed RTC's policies and processes to include minority- and women-owned businesses (MWOB) to the maximum extent possible in contracting opportunities, focusing on the (1) assignment of resources to the MWOB program and (2) implementation of MWOB program contracting procedures in the field, including certification of MWOB firms and award of technical bonus points and the cost advantage.

Findings

GAO found that (1) RTC got off to a slow start in implementing a MWOB program for asset management contracting; (2) the lack of comprehensive headquarters program guidance and inadequate staff at RTC headquarters resulted in an inconsistent integration of MWOB program requirements into the contracting process and inhibited RTC ability to provide comprehensive MWOB program implementation oversight; (3) lack of comprehensive guidance has allowed field staff discretion to interpret and apply the interim guidance; (4) RTC lacks assurance that self-certified MWOB are actually MWOB and that MWOB always receive the competitive advantage intended by the program; (5) in four of the six offices visited, the minority contract specialists rarely verified the information supplied by firms to support their self-certification as MWOB; (6) RTC field offices did not apply technical bonus points in a consistent manner, thereby precluding some MWOB from final consideration for contracts; and (7) the 3 percent cost advantage often was not applied because MWOB cost proposals were generally not within 3 percent of the cost proposal submitted by the low bidder as required, resulting in the use of only $256,315 of the $4 million available for cost advantages.

Recommendations to Agencies

Recommendation 1

To improve the effectiveness of the MWOB program, the Executive Director, RTC, should assess the adequacy of staff assigned to the MWOB program in headquarters.

Status

Action completed (closed).

RTC established an office within headquarters to focus exclusively on programs for minority- and women-owned businesses and law firms.

Status Change Date

04/20/92

Recommendation 2

To improve the effectiveness of the MWOB program, the Executive Director, RTC, should provide the necessary oversight structure to ensure that the recently proposed MWOB status verification procedures, as well as other aspects of the program, are consistently implemented.

Status

Action completed (closed).

RTC believes the newly created MWOB office in headquarters will provide the oversight necessary to implement this recommendation. The Director of the RTC MWOB program has allocated two full-time positions in headquarters to oversee the certification-verification procedures for MWOB and joint ventures. Although RTC is moving in the right direction, these positions have not been filled.

Status Change Date

4/5/93

Recommendation 3

To improve the effectiveness of the MWOB program, the Executive Director, RTC, should determine at what stage during the contract evaluation process technical bonus points should be applied for MWOB asset management firms and issue guidance to the consolidated offices to consistently implement that policy.

Status

Action taken not fully responsive (open).

RTC is finalizing regulations for the MWOB program that will include specific guidance on the application of technical bonus points. On August 20, 1992, RTC issued a directive to its field offices describing procedures for the application of technical and cost bonus points to MWOB. However, the implementation of this directive consistently by the field offices has not begun.

Status Change Date

4/13/93

Recommendation 4

To improve the effectiveness of the MWOB program, the Executive Director, RTC, should review the cost advantage feature and determine whether the proposed "up to 5 percent" is sufficient to enhance the ability of MWOB to effectively compete for RTC asset management contracts.

Status

Action completed (closed).

The RTC Refinancing, Restructuring, and Improvement Act of 1991 required RTC to provide a 5 percent cost advantage.

Status Change Date

04/20/92

Resolution Trust Corporation: Monitoring RTC's Fitness and Integrity Policies for Independent Contractors (GAO/GGD-91-134BR, Sept. 25, 1991)

Background

Pursuant to a congressional request, GAO reviewed RTC's administration of ethics and conflict-of-interest policies as they relate to independent contractors.

Findings

GAO found that (1) the Contractors' Conflicts Committee, along with the various RTC program ethics offices, has begun to establish operational guidelines by using a case law approach to determine fitness and integrity issues as they apply to independent contractors; (2) about 67 percent of the contractors the Committee interviewed have been registered under discretionary authority; (3) procedures have been established, but not finalized, for the suspension and exclusion of contractors that do not meet minimum standards of fitness and integrity; (4) one contractor's awards were rescinded and the contractor was excluded from providing services to RTC because it failed to meet the minimum required standards; (5) RTC has not published and made available to the public all cases that have been decided, thereby creating a backlog of issued decisions; and (6) RTC is revising the procedures used to assess fitness and integrity issues before a contract is awarded but still needs to formalize these screening policies and procedures.

Resolution Trust Corporation: Evolving Oversight on Interim Servicing Arrangements (GAO/GGD-91-120, Sept. 18, 1991)

Background

Pursuant to a congressional request, GAO reviewed RTC's efforts to manage assets during the interim period between the sale of a thrift institution and the award of a contract for asset management services for those assets remaining with RTC, focusing on (1) whether the agreements covering the interim period included appropriate provisions to protect the government's interests; (2) whether RTC had sufficient bill verification procedures; and (3) the extent to which RTC monitored contractor performance under the interim agreements.

Findings

GAO found that (1) only 2 months following its inception, RTC was responsible for managing and disposing of over $112 billion in assets as well as staffing and structuring its organization; (2) because RTC was not yet organized to handle thrift acquirer-bought assets, it entered into interim servicing agreements (ISA) with thrift acquirers to service remaining assets; (3) ISA were standard documents that provided for continued servicing of some, if not all, of the assets thrift acquirers had not bought; (4) during February 1990, RTC revised its interim servicing approach by discontinuing its use of separate ISA at resolution and incorporating ISA sections into the thrift sales agreement, requiring the acquirer to provide only accounting and payroll functions to service the receivership assets; (5) in one region, RTC was contracting for receivership management and servicing of remaining assets after resolution; (6) in an attempt to reduce assets needing to be serviced under interim asset servicing arrangements, RTC put such assets under management contracts while they were still in conservatorships; (7) factors common to all RTC methods to date include insufficient guidance to contract administration employees, insufficient contractor oversight, and insufficient ISA training; and (8) initiatives included in recent legislation to improve RTC contracting procedures included the development of a comprehensive contracting manual and implementation of a contracting training module.

Resolution Trust Corporation: A More Flexible Contracting-Out Policy Is Needed (GAO/GGD-91-136, Sept. 18, 1991)

Background

Pursuant to a congressional request, GAO reviewed RTC's contracting procedures, focusing on whether RTC uses an approach that allows it to select between contractors and RTC staff for the most advantageous approach to handle asset management and disposition.

Findings

GAO found that (1) RTC does not justify decisions to hire private contractors based on comparison of in-house and contractor costs, since the applicable law does not require it to prepare justifications to support its contracting procedures; (2) although the RTC policy to use only private-sector asset management and disposition contractors for real estate and problem loan assets may not be the most cost-effective approach, most RTC staff believe that a change in its contracting policy would divert the staff's attention from its primary goal of contracting for such services; (3) some RTC staff said that a more flexible approach for contracting decisions could be more effective than the current RTC policy; and (4) some RTC staff believe that in some situations, RTC staff could manage and dispose of assets more effectively than a contractor, particularly where RTC developed expertise on a complex asset or package asset or expected to sell an asset through a RTC-sponsored bulk sale, auction, or other expedited selling technique.

Recommendation to Agencies

Recommendation

RTC should clarify its contracting-out policy so that its staff clearly understand that they have the flexibility to use their staff instead of private contractors when, in their judgment, an in-house approach would be more practical and efficient for a particular need or situation.

Status

Action in process (open).

The committee set up to study implementation of this recommendation has completed its work. A draft of their recommendations has been submitted to RTC management for review and approval.

Status Change Date

4/13/93

Resolution Trust Corporation: Progress Under Way in Minority and Women Outreach Program for Outside Counsel (GAO/GGD-91-121, Aug. 30, 1991)

Background

Pursuant to a congressional request, GAO reviewed RTC's policies and processes for obtaining outside services through contracts and for including minority-owned and women-owned law firms in those opportunities, focusing on (1) RTC progress in establishing, implementing, and overseeing its minority and women outreach program for outside counsel; (2) program shortcomings that may prevent more referrals to minority-owned and women-owned firms; and (3) actions taken to increase the participation of those firms.

Findings

GAO found that (1) RTC and Federal Deposit Insurance Corporation (FDIC) officials attributed the slow start in establishing a minority and women outreach program to insufficient staffing; (2) since April 1991, RTC has implemented and expanded a pilot program designed to increase the number of minority-owned and women-owned firms on the national list of counsel utilized (LCU) and conducted several training seminars for outside counsel; (3) the RTC Board of Directors recently approved regulations for including minority-owned and women-owned firms in all RTC contracting activities; (4) in the nine RTC offices visited, the minority point persons were charged with carrying out the outreach program responsibilities in addition to their legal work; (5) at the offices visited, the outreach programs were at various stages of development; (6) FDIC and RTC adopted a joint venture program that may increase the areas of expertise for minority-owned and women-owned firms, but shortcomings exist; and (7) program shortcomings included inappropriate firms and inaccurate and insufficient information in LCU, differing interpretations of certain factors used to select outside counsel, the inability of RTC monthly case referral reports to track all legal conservatorships and receiverships, and limited headquarters oversight of outreach activities in the regional and consolidated offices.

Recommendations to Agencies

Recommendation 1

To improve the minority and women outreach program for outside counsel, RTC and FDIC should assess the adequacy of staffing levels assigned both in headquarters and the field offices.

Status

Action completed (closed).

RTC is currently in the process of placing its minority and women outreach program for legal counsel under its Department of Minority and Women's Program. Under this change, the Director of the Department plans to hire two attorneys who will be responsible for carrying out the program's objectives exclusively, for each of the RTC field offices.

Status Change Date

4/13/93

Recommendation 2

To improve the minority and women outreach program for outside counsel, RTC and FDIC should enhance the usefulness of the list of counsel utilized by including such information as the firms' areas of expertise and rates.

Status

Action taken not fully responsive (open).

RTC agrees with the recommendation and plans to have the information on the firm's area of expertise and rates included with the implementation of its Legal Division Information Management System. In May 1992, RTC began including a law firm's area of expertise on its list of counsel utilized, which is now referred to as the list of counsel available.

Status Change Date

4/13/93

Recommendation 3

To improve the minority and women outreach program for outside counsel, RTC and FDIC should develop and consistently implement procedures for selecting outside counsel to ensure that minority-owned and women-owned firms are considered for providing legal services for which they are qualified.

Status

Action completed (closed).

In February 1992, RTC issued its Guide for Outside Counsel, which includes guidance on selecting outside counsel. Additionally, in January 1992, RTC issued its legal division policy concerning the minority and women outreach program, which includes information on maximizing the inclusion of minority- and women-owned law firms.

Status Change Date

04/20/92

Recommendation 4

To improve the minority and women outreach program for outside counsel, RTC and FDIC should enhance oversight of the outreach activities at the regional and consolidated offices to ensure they are in agreement with the objectives of the outreach program.

Status

Action completed (closed).

RTC is in the process of placing its minority and women outreach legal program under the responsibility of its Department of Minority and Women's program and believes that, once this change occurs, this will improve the oversight of the legal program in the field.

Status Change Date

4/13/93

RTC Asset Management: Contracting Controls Need to Be Strengthened (GAO/T-GGD-90-53, Sept. 24, 1990)

Background

GAO discussed RTC's contracting practices.

Findings

GAO noted that (1) in January 1990, GAO cited RTC as 1 of 14 federal programs that were highly vulnerable to fraud, waste, and abuse and (2) as of June 30, 1990, RTC resolved 207 thrifts and controlled $168 billion in assets, including 40,000 properties with a book value of about $16 billion. GAO also noted that RTC reliance on contractors to carry out a major portion of its mission made it essential that RTC have (1) an appropriate organizational structure for selecting contractors and monitoring performance; (2) sufficient numbers of competent personnel to award and monitor contracts; and (3) an internal control system to safeguard assets against waste, loss, unauthorized use, and misappropriation. In addition, GAO noted that RTC (1) developed a highly decentralized organizational structure with delegations of authority; (2) established a task force to assess contracting staff training needs; (3) developed such essential controls as rules on ethical standards, a standard asset management and disposition agreement, and an asset management and disposition manual; and (4) needs to watch out for problems resulting from not calculating net proceeds from assets, difficulty in defining good performance measures, and insufficient management information.

Resolution Trust Corporation: Unnecessary Loan Servicing Costs Due to Inadequate Contract Oversight (GAO/GGD-91-19, Jan. 17, 1991)

Background

Pursuant to a congressional request, GAO reviewed RTC's use of interim servicing agreements (ISA) to determine ISA loan servicing costs and the adequacy of RTC monitoring of such agreements.

Findings

GAO found that (1) RTC could have avoided as much as $1 million in loan processing costs by closing one large loan processing center; (2) unnecessary costs resulted from inadequate contract monitoring, insufficient RTC and contractor oversight, insufficient cost information, and RTC failure to take early action to market the center; (3) RTC did not have enough staff to adequately oversee center operations to ensure that costs incurred were reasonable; and (4) RTC did not begin marketing the center until 6 months after 85 percent of the center's loans had been removed.

GAO Products on RTC Funding and Crosscutting Issues

Obligations Limitation: Resolution Trust Corporation's Compliance as of March 31, 1991 (GAO/AFMD-92-39, Mar. 11, 1992)

Background

Pursuant to a congressional request, GAO provided its quarterly review of RTC's compliance with the maximum obligation limit set forth by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). That legislation established a formula for calculating the maximum allowable obligations outstanding and provided $50 billion in financing to resolve troubled savings and loans placed in conservatorship or receivership from January 1989 to August 1992.

Findings

GAO found that (1) RTC included all of the categories for the formula required by FIRREA in its calculation, but, as allowed by the law, RTC did not include $18.8 billion of Treasury funding in this first quarter 1991 calculation; (2) had the $18.8 billion of Treasury funding been included, RTC's first quarter 1991 adjusted obligation level would be nearly $10 billion over the $50 billion provided by FIRREA, and RTC would be precluded from incurring any additional obligations; (3) the obligation formula as calculated in the first quarter of 1991 is not comparable to those calculated for the first and second quarters of 1990 and no longer requires cash reserves to cover unexpected future losses on asset sales due to the overvaluation of RTC assets in receiverships; and (4) information in 11 of 60 tested receivership asset files did not support the estimated market values and raised questions regarding the existence and ownership of some assets included in RTC's recovery value calculations.

Resolution Trust Corporation: Performance Assessment for 1991 (GAO/T-GGD-92-18, Mar. 5, 1992)

Background

GAO discussed RTC's (1) progress in resolving failed or problem thrifts and (2) funding needs.

Findings

GAO noted that RTC (1) continues to make good progress in resolving thrifts and selling certain assets and, by the end of 1991, had resolved 584 thrifts at a cost of $77 billion, but, during 1991, economic and funding disruptions caused RTC to resolve only 232 thrifts out of 268 planned resolutions; (2) cannot accurately predict the full cost of its resolution actions or the exact number or time of future bank failures; (3) decreased its average speed in resolving thrifts to only 40 weeks; (4) increased its emphasis on asset sales but needs a more aggressive disposition program for its increasing inventory of hard-to-sell financial and real estate assets; (5) improved its contracting system but made little progress in implementing effective strategies for contractor oversight and contract administration; (6) lacked adequate information systems to support asset management and disposition, and such problems as unclear or changing requirements, inaccurate or incomplete data, poor software, and poor response times have delayed systems delivery and use; and (7) has awarded more contracts to minority- and women-owned businesses.

Resolution Trust Corporation: Performance Assessment for 1991 (GAO/T-GGD-92-14, Feb. 26, 1992)

Background

GAO discussed RTC's (1) progress in resolving failed or problem thrifts and (2) funding needs.

Findings

GAO noted that (1) Congress took several legislative actions to strengthen and improve RTC operations, including management reform initiatives and reporting requirements; (2) RTC continues to make good progress in resolving thrifts and selling certain assets and, by the end of 1991, had resolved 584 thrifts at a cost of $77 billion; (3) RTC also improved its speed in resolving thrifts; (4) in December 1991, Congress authorized an additional $25 billion for thrift resolution but stipulated that RTC must obligate the funds before April 1, 1992; (5) RTC cannot accurately predict the full cost of its resolution actions or the exact number or time of future bank failures; (6) RTC made progress in disposing of certain thrift assets but needs a more aggressive disposition program for its increasing inventory of hard-to-sell financial and real estate assets; (7) RTC also improved its contracting system but has made little progress in implementing effective strategies for contractor oversight and contract administration; and (8) RTC still lacks adequate information systems to support asset management and disposition, and such problems as unclear or changing requirements, inaccurate or incomplete data, poor software, and poor response times have delayed system delivery and use.

Recommendations to Congress

Recommendation 1

Congress should eliminate the April 1, 1992, obligations deadline placed on the $25 billion authorized in December 1991.

Status

Action not taken (closed).

Status Change Date

2/1/93

Recommendation 2

Congress should ask RTC to estimate its loss fund needs through the spring of 1993 and provide RTC with sufficient funds on a timely basis to carry out its responsibilities during this period.

Status

No action taken (closed).

Status Change Date

2/1/93

Recommendation to Agencies

Recommendation 3

RTC should define strategies, match information needs to those strategies, and then develop systems to provide complete, accurate, and reliable information to those who need it to carry out their duties to manage asset disposal programs or oversee contractors hired to carry out asset management and other functions.

Status

Action in process.

RTC is in the process of defining its strategies. Until this process is complete, RTC is requiring systems project managers to work with business analysts to ensure that systems meet corporate needs.

Status Change Date

4/13/93

Government Management: Major Issues Facing the Congress (GAO/T-AFMD-92-4, Mar. 6, 1992)

Background

GAO discussed the current state of government management and its impact on federal services.

Findings

GAO noted that (1) the President and Congress have made a serious attempt to bring the deficit under control, but the government will not achieve its latest balanced budget goal; (2) according to the Congressional Budget Office, most of the deficit change has resulted from decreased revenues and corrections in estimates for medical expenditures and net interest payments; (3) defense, health, deposit insurance, and interest outlays account for about 70 percent of all general fund fiscal year 1993 outlays and significant budget saving actions in these areas could greatly help reduce the overall deficit; (4) health care costs grew by almost 70 percent, from 7.3 percent of the gross national product in fiscal year 1970 to 12.3 percent in fiscal year 1990; (5) the Federal Deposit Insurance Corporation estimated that 375 institutions are failing or will require assistance over the next 2 years, with losses to the Bank Insurance Fund totaling as much as $43 billion and working capital needs totaling $59 billion; (6) interest on public debt was one of the most rapidly growing components of government spending; (7) the President plans to reduce forces and cut nuclear weapons to reduce defense spending; (8) GAO has undertaken a special audit program to detect mismanagement, fraud, and abuse and has identified 16 target areas as being at high risk for fraud, waste, and abuse; and (9) the Office of Management and Budget's (OMB) guidance covering the Chief Financial Officers Act authorities, qualifications, financial statements, and auditing has been adequate, but OMB may not have sufficient resources for this function.

Budget Issues: 1991 Budget Estimates: What Went Wrong (GAO/OCG-92-1, Jan. 15, 1992)

Background

GAO reviewed the factors contributing to the Office of Management and Budget's (OMB) large misestimate for the fiscal year 1991 budget deficit.

Findings

GAO found that (1) the fiscal year 1991 OMB baseline deficit estimate varied from $100.5 billion in January 1990 to $310.3 billion in February 1991, with an actual deficit of $268.7 billion; (2) the $168.2 billion increase was the result of changes in estimated receipts from a number of sources and changes in estimated outlays in a number of programs; (3) decisions to reduce Department of Defense (DOD) funding below the baseline level and allied contributions to Operation Desert Shield/Storm caused the decrease in estimated DOD outlays; (4) $70.4 billion of the increase was due to the deteriorating economy; (5) deposit insurance estimates were the most volatile component of the fiscal year 1991 budget; (6) virtually all the variation in the deposit insurance estimates appeared in the Federal Deposit Insurance Corporation Bank Insurance Fund and the Federal Savings and Loan Insurance Corporation Resolution Fund; (7) tax receipt estimates were consistently reduced from the initial forecast of $1.125 billion to $1.068 trillion; (8) new legislation and regulations produced $30.7 billion in budgetary savings; (9) reestimates that are not directly attributed to legislation, regulations, or explicit changes in economic assumptions accounted for $94.4 billion of the increase; and (10) Medicaid outlays increased from $45 billion to actual outlays of $52.5 billion.

Recommendations to Agencies

Recommendation 1

The Secretary of the Treasury and the Director, OMB, should agree on a procedure to ensure the prompt reporting of an analysis of the causes of changes in budget estimates for the most recently completed fiscal year. Ideally, this information and analysis would be made available when the final Monthly Treasury Statement for the year is released.

Status

Action taken not fully responsive (closed). The OMB response reaffirms the previous practice of providing detailed analysis in February, not in October, as GAO recommended. GAO anticipates further follow-up of this issue in its audit work of fiscal year 1992 budget estimates.

Status Change Date

09/30/92

Status

Action taken not fully responsive (closed).

Treasury's response reaffirms the previous practice of providing detailed analysis in February, not in October as GAO recommended. GAO anticipates follow-up of this issue in its audit work of fiscal year 1992 budget estimates.

Status Change Date

09/30/92

Recommendation 2

The Director, OMB, should review OMB procedures for assessing the accuracy of its budget estimates and the underlying estimating practices in order to better identify a means of improving the accuracy of the budget estimates. This assessment should start with a systematic identification of areas in the budget in which the actual results departed materially from the original estimates. Each of these areas should then be examined in detail to determine the reasons for the variances and to identify improvements in the estimating procedures that would yield more reliable estimates in the future.

Status

Action taken not fully responsive (closed).

The OMB response assures that steps will be taken to improve its estimation record. GAO anticipates follow-up of OMB efforts and progress in its audit work of fiscal year 1992 budget estimates.

Status Change Date

09/30/92

Federal Credit and Insurance Programs: Actions That Could Minimize a Growing Risk (GAO/T-AFMD-92-1, Oct. 24, 1991)

Background

GAO discussed the government's credit and insurance programs, focusing on (1) growth and risk of loss to the government; (2) underlying causes of the increasing losses; and (3) actions taken and actions that could be taken to minimize government losses. GAO noted that (1) the government's exposure to loss from its credit and insurance programs has grown from about $438 billion 25 years ago to over $6.2 trillion today, with most of the increase coming from growth in existing programs; (2) direct and guaranteed loans increased from $667 billion to $851 billion between fiscal year 1985 and fiscal year 1990; (3) although agencies have acted to improve the financial management of federal loan programs, progress has been slow; (4) the current recession, the decline in real estate values, administrative and financial management weaknesses, and regulatory failures all contributed to credit and insurance program losses; (5) the increase of the government's insurance commitments from $2.8 trillion at the end of fiscal year 1985 to $4.5 trillion at the end of fiscal year 1990 can be attributed mostly to increased deposits in financial institutions and amounts of pensions insured; and (6) such banking legislative proposals as tying prompt regulatory action to specific unsafe banking practices, conducting annual, full-scope, on-site bank exams, improved accounting standards and internal controls, strengthened bank audit committees, funding the Bank Insurance Fund to permit resolution activity, and annual independent audits would help minimize deposit insurance losses to the government.

Findings

The government's credit and insurance programs fall into four categories (1) direct loans of federal funds to borrowers; (2) privately held loans guaranteed by the government; (3) government-sponsored enterprise loans; and (4) commitments for insurance programs, such as those covering bank deposits and pension benefits. GAO testified that the government's overall exposure from these programs has mushroomed from roughly $438 billion 25 years ago to more than $6.2 trillion today. In the last 5 years alone, the exposure has almost doubled. Losses from these programs have been high and may rise even higher in the future. In addition to economic factors, problems with administration and financial management have impaired the government's ability to minimize and control losses. Congress has taken important steps in passing the Credit Reform Act, the Chief Financial Officers Act, and other legislation aimed at credit and insurance programs. The Office of Management and Budget has indicated its support of improved financial management in government and of bringing the accounting and budgeting processes closer together. If the effort is sustained, the federal government's credit and insurance programs can be brought under control and losses minimized. However, this will require strong congressional support augmented by additional actions GAO highlights in this testimony.

Obligations Limitation: Resolution Trust Corporation's Compliance as of December 31, 1990 (GAO/AFMD-92-4, Oct. 22, 1991)

Background

Pursuant to a congressional request, GAO reviewed RTC's fourth quarter compliance with the maximum obligation limit set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which (1) established a formula for calculating the maximum allowable obligations outstanding and (2) provided $50 billion in financing to resolve troubled savings and loan institutions placed into conservatorship or receivership from January 1, 1989, through August 9, 1992.

Findings

GAO found that (1) RTC included all of the categories for the formula required by FIRREA in its calculation, but, as allowed by the law, RTC did not include $18.8 billion of Treasury funding in this fourth quarter 1990 calculation; (2) had the $18.8 billion of Treasury funding been included, RTC's fourth quarter 1990 adjusted obligation level would be approximately $1.7 billion over the $50 billion provided by FIRREA and RTC would be precluded from incurring any additional obligations; (3) the obligation formula, as calculated in the fourth quarter 1990, is not comparable to those calculated for the first and second quarters of 1990 and no longer requires cash reserves to cover unexpected future losses on asset sales due to the overvaluation of RTC assets in receiverships; (4) until RTC has sufficient experience in selling real estate and troubled loans secured by real estate, no basis exists to assess whether its estimated recovery values are reasonable, since the amounts recovered from asset sales are dependent on the behavior of commercial and other real estate markets; and (5) RTC partially implemented one of two outstanding recommendations GAO made in its first quarterly compliance report (AFMD-90-101) and adequately addressed the other.

Pay and Benefits: Information on Four Federal Banking Agencies (GAO/GGD-91-137BR, Sept. 30, 1991)

Background

Pursuant to a congressional request, GAO reviewed the implementation of a provision of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to promote comparability in pay and benefits among federal banking agencies, focusing on (1) mechanisms of coordination the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) established to seek comparability; (2) policies adopted by the agencies that affect actual comparability; and (3) current pay schedules.

Findings

GAO found that (1) in January 1991, OCC and OTS implemented new compensation programs and informed the other agencies and Congress of the changes; (2) overall, the agencies provide such compensation as geographic cost differentials and pay-for-performance programs in addition to base pay, but the type and amounts of additions vary; and (3) the actual average base and total pay received by attorneys, bank examiners, and secretaries differ for the positions analyzed, but those differences do not necessarily indicate a lack of comparability.

Resolution Trust Corporation: Immediate Action Is Needed to Control Insurance Costs (GAO/GGD-91-119, Sept. 20, 1991)

Background

GAO examined RTC's insurance-related policies, procedures, and initiatives, focusing on (1) RTC actions to control insurance costs and (2) the amount spent on inefficient and unneeded policies.

Findings

GAO found that (1) although RTC has taken steps to assess its overall condition in relation to insurance, develop a long-term insurance plan, and hire contractors with risk management expertise, more could be done to control insurance premium costs; (2) RTC has spent more than a year developing the self-insurance program, but its plans are still incomplete; (3) between February and August 1991, RTC could have saved $10.5 million on insurance premiums by raising policy deductibles to $100,000; and (4) RTC missed opportunities to save on insurance cost because it delayed getting the self-insurance programs started, did not make greater use of blanket policies, and did not cancel policies it no longer needed.

Recommendations to Agencies

Recommendation 1

The RTC Oversight Board should direct RTC to move aggressively to finalize the implementation plans for the self-insurance program and present them to the RTC board of directors as soon as possible.

Status

Action completed (closed).

The RTC Refinancing, Restructuring, and Improvement Act of 1991 restructured RTC and the Oversight Board. As a result, the Oversight Board is no longer required to approve RTC policies. However, RTC began implementing its self-insurance program in March 1992.

Status Change Date

05/19/92

Recommendation 2

If the plans call for continuing some types of private insurance, the RTC Oversight Board should require RTC to (1) set standards for liability coverage limits, deductibles, and policy terms and conditions for those types of coverages and (2) develop the information systems needed to effectively manage those policies.

Status

Recommendation no longer applicable (closed).

RTC, in March 1992, decided to self-insure all assets and not to rely on private insurance coverage for any of the assets.

Status Change Date

05/19/92

Recommendation 3

The RTC Oversight Board should ensure that RTC has procedures in place to monitor the implementation of both the interim policies issued in August 1990 and August 1991 and the long-term self-insurance program when it is finalized.

Status

Recommendation no longer applicable (closed).

The RTC Refinancing, Restructuring, and Improvement Act of 1991 restructured RTC and the Oversight Board. As a result, the Oversight Board is no longer required to approve RTC policies. However, RTC began implementing its self-insurance program in March 1992.

Status Change Date

05/19/92

Recommendation 4

RTC should review practices to ensure consistency throughout the Corporation.

Status

Action completed (closed).

During March 1992, the RTC Executive Committee approved the implementation of a self-insurance program. RTC field offices implemented the program shortly thereafter.

Status Change Date

05/19/92

Resolution Trust Corporation: Funding, Asset Disposition, and Structure Issues (GAO/T-GGD-91-67, Sept. 17, 1991)

Background

GAO discussed (1) RTC's current and future funding needs; (2) its progress in disposing of assets; and (3) issues related to restructuring RTC.

Findings

GAO noted that (1) on September 12, 1991, RTC and its Oversight Board requested an additional $80 billion in loss funds, a $160 billion increase in the RTC working capital borrowing authority, to complete the cleanup of 900 insolvent thrifts and allow the Savings Association Insurance Fund to assume its responsibilities without a backlog of unresolved troubled thrifts; (2) RTC also stated that it used $59 billion in working capital and expects to need another $58 billion to carry it through fiscal year 1992, and if RTC adheres to its plan, it will exceed its current borrowing authority by $17 billion in fiscal year 1992; (3) RTC financial statements for the year ending December 31, 1990, are not yet complete and are subject to significant reduction; (4) by June 1991, RTC had taken a total of about $328 billion in assets under its control and liquidated 51 percent; (5) by June 30, 1991, about $124 billion or 78 percent of RTC total assets, remained in the RTC inventory; and (6) continued leadership and management attention will be needed to sustain and enhance RTC progress in developing a sound information resources management program. GAO believes that RTC needs a (1) strong chief executive officer to be responsible for the day-to-day operations and (2) strong oversight by an entity independent of the day-to-day operations.

Financial Analysis: Short-Term Funding Needs of the Bank Insurance Fund and the Resolution Trust Corporation (GAO/AFMD-91-90, Aug. 22, 1991)

Background

Pursuant to a congressional request, GAO provided information about the financial condition of the Bank Insurance Fund and RTC, focusing on whether the Federal Deposit Insurance Corporation (FDIC) was (1) forbearing from closing institutions or (2) approving forms of transactions that were more costly in the long run.

Findings

GAO reported that (1) FDIC overstated the Fund balance at December 31, 1990, by a minimum of $4.2 billion, leaving a balance of $4 billion; (2) a new FDIC methodology to identify and recognize losses associated with insolvent institutions should produce more accurate information on the Fund's future status and condition; (3) existing deficiencies in accounting principles for both loss recognition and measurement continue to hinder the ability of FDIC and other financial institution regulators to identify all institutions that are insolvent; (4) the Fund will continue to incur losses of about $1 billion a year over the next 3 years from the failure of small institutions; (5) due to continuing financial reporting deficiencies by banks and the inherent uncertainties associated with regulatory decisions regarding problem institutions, the Fund will likely be insolvent by December 31, 1991; (6) if RTC adheres to its June 17, 1991, resolution schedule, it will use $79 billion of the $80 billion loss funds already provided by September 30, 1991, and will exceed the total funds provided by $8 billion at December 31, 1991; and (7) it could not be determined whether forbearance was being used to conserve cash, but financial audits of the Fund and RTC identified a number of insolvent banks and thrifts that have not been closed.

Failed Thrifts' Assets: RTC's Oversight of 1988 Deals Needs Improvement (GAO/GGD-91-116, Aug. 21, 1991)

Background

GAO assessed the Federal Savings and Loan Insurance Corporation's (FSLIC) oversight of the asset disposition plans submitted by institutions that acquired failed thrifts in fiscal year 1988 under financial assistance agreements.

Findings

GAO found that (1) FSLIC adhered to available guidance in approving or rejecting the asset disposition plans; (2) the 92 approved plans provided information on the history and condition of the assets and appraisals and adequate support for the proposed asset dispositions and rejection of the alternative plans; (3) integrated systems for determining if the assisted thrifts submitted asset disposition plans as required and implemented approved plans were not in place; (4) the Federal Deposit Insurance Corporation established a task force to develop and implement integrated management information systems by March 31, 1991; and (5) did not meet the implementation goal primarily because it could not reconcile the original inventory of covered assets, the asset dispositions, and the present inventory of covered assets.

Resolution Trust Corporation: Structure and Oversight Issues (GAO/T-GGD-91-55, July 15, 1991)

Background

GAO discussed issues related to the structure and oversight of RTC, focusing on whether (1) the standard structure and oversight of executive agencies would better facilitate attaining RTC accountability and least-cost goals; (2) standard Office of Management and Budget (OMB) oversight of federal agency activities would be sufficient for RTC activities; (3) certain statutes and regulations were applicable to a restructured RTC; and (4) restructuring RTC as an executive agency would leave any unresolved questions about the statutes and regulations that apply to it.

Findings

GAO found that (1) there is nothing inherent in the current RTC structure that prevents the exercise of sound oversight; (2) restructuring RTC as an executive agency may streamline decisionmaking and reduce the independence of the oversight board; (3) independent oversight of RTC operations is essential due to its unique and complex mission; (4) it is not clear what additional expertise OMB could offer to achieve better oversight of RTC or what benefits could accrue from greater OMB involvement; (5) a restructured RTC would observe laws that apply to executive agencies and be subject to requirements concerning environmental and contracting matters; (6) subjecting RTC to federal contracting statutes may have some public benefit but could slow its asset disposition efforts; and (7) the installation of such federal pay and personnel rules as the removal of exempt status to a restructured RTC may cause employees to leave, resulting in a disruption in RTC activities.

Resolution Trust Corporation: Update on Funding and Performance (GAO/T-GGD-91-47, June 17, 1991)

Background

GAO discussed (1) RTC's estimates for future funding, (2) the status of RTC operations and initiatives, and (3) the reconstruction of RTC.

Findings

GAO noted that (1) the $80 billion Congress provided will not be sufficient to resolve all expected thrift failures; (2) since RTC sales of troubled assets were slower than hoped and future proceeds will be lower than anticipated, resolution costs are likely to exceed RTC and Oversight Board estimates; (3) RTC would need at least an additional $50 billion in 1992, which could increase significantly if RTC accelerates its resolution schedule; (4) it is likely that some RTC working capital will not be repaid from asset sales, due to RTC policy that allows it to aggressively discount distressed properties; (5) such practices mean that RTC could receive much less for an asset than it borrowed to purchase it at resolution; (6) RTC had difficulty in reconciling its accounts and was late in supplying its financial statements; (7) any plans to recapitalize the Bank Insurance Fund or provide additional resolution funding to RTC without reforms to correct accounting and internal control problems will only perpetuate the insurance problems; (8) if the proposed expanded bank powers are enacted without accounting and internal control reforms, Fund losses are likely to worsen; and (9) RTC has taken a number of actions to improve management and strengthen internal controls.

Resolution Trust Corporation: Update on Funding and Performance (GAO/T-GGD-91-43, June 11, 1991)

Background

GAO discussed (1) RTC's estimates for future funding, (2) the status of RTC current operations and initiatives, and (3) restructuring RTC.

Findings

GAO noted that (1) the $80-billion RTC appropriation would not be sufficient to resolve all expected thrift failures; (2) due to slow RTC sales of troubled assets, resolution costs are likely to exceed RTC and Oversight Board estimates; (3) RTC will need at least $50 billion in 1992 and will require additional working capital to fund the purchase of failed institutions' assets and its management until sale; (4) the amount needed to resolve the remaining troubled thrifts could increase significantly if RTC accelerates its resolution schedule, or more thrifts than predicted fail; (5) due to a new policy allowing RTC to discount distressed properties, some RTC working capital may not be repaid from asset sales proceeds, requiring additional funding; (6) due to RTC difficulty in reconciling its accounts and the late receipt of RTC financial statements, GAO will be unable to provide Congress with its audit opinion by the statutory reporting date; (7) any plan to recapitalize the Bank Insurance Fund or to provide funding to RTC without initially reforming the accounting and internal control problems would only perpetuate the problems that have contributed significantly to the demise of the insurance funds; (8) RTC established a task force to develop and implement standardized procedures for auditing conservatorships to monitor managing agents' performance and ensure compliance with policies and procedures; and (9) RTC needs to improve its approaches to selling assets.

Obligations Limitation: Resolution Trust Corporation's Compliance as of September 30, 1990 (GAO/AFMD-91-63, May 31, 1991)

Background

Pursuant to a congressional request, GAO assessed RTC's third quarter compliance with the maximum RTC obligation limit set forth by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which provided a formula calculating maximum allowable obligations.

Findings

GAO found that (1) none of the formula categories required by FIRREA were omitted from the RTC calculation; (2) since RTC changed its calculation method for its third quarter compliance to eliminate $18.8 billion funding, its adjusted obligation level was not comparable to the amounts calculated for the first and second quarter reports; (3) excluding Treasury funding from the formula eliminated the 15-percent cash reserve feature and resulted in a potentially misleading assessment of RTC ability to fund any future losses resulting from asset sales; (4) RTC financial accounts had errors and misclassifications, but none of them materially affected the adjusted obligation level; and (5) RTC addressed one of three recommendations GAO made in its first quarter compliance report (GAO/AFMD-90-101) and continues to work on the other two.

Recommendation to Congress

Recommendation

Congress should consider reestablishing a cash reserve feature by amending FIRREA to recognize all funding sources in the obligations limitation formula.

Status

Recommendation valid/action not intended (closed).

Congress did not amend FIRREA to fix or eliminate the formula in funding bills passed in March and December 1991. RTC is requesting additional funding to carry it through to April 1993. Congress could amend FIRREA in conjunction with that request, but such action is not included in the funding bill.

Status Change Date

05/06/92

Obligations Limitation: Resolution Trust Corporation's Compliance as of June 30, 1990 (GAO/AFMD-91-41, Dec. 21, 1990)

Background

Pursuant to a congressional request, GAO assessed RTC's compliance with the maximum RTC obligation limit set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

Findings

GAO found that (1) RTC included all of the categories for the formula required by FIRREA in its calculation and included $18.8 billion of Treasury funding even though not required to do so by FIRREA; (2) RTC was working to correct several minor errors and miscalculations in its financial accounts that would not have a material effect on its calculations; (3) including the Treasury funding, RTC's adjusted obligation level was $20 billion under the $50 billion provided by FIRREA; and (4) in response to recommendations GAO made in its first quarterly compliance report (GAO/AFMD-90-101), RTC was developing a receivership tracking system, implementing procedures to secure advances made to conservatorships, and establishing loss reserves for contingent liabilities due to representations and warranties.

Resolution Trust Corporation: Status of Selected Management Issues (GAO/T-GGD-91-4, Dec. 6, 1990)

Background

GAO discussed selected management issues regarding RTC, focusing on its (1) established organizational structure; (2) management of its conservatorships; (3) resolution of failed thrifts; and (4) disposal of financial and real estate assets.

Findings

GAO noted that (1) from August 1989 through September 1990, RTC resolved 287 thrifts; (2) as of September 30, 1990, RTC managed 206 conservatorships with assets totalling $91 billion; (3) as of September 30, 1990, RTC had responsibility for managing and disposing of $142 billion in total assets, with real estate assets totalling approximately $17 billion; (4) RTC developed a standard asset management and disposition agreement (SAMDA) requiring contractors to prepare business plans for the management and disposition of RTC-held assets, provide asset management services, and ultimately sell the assets; (5) as of November 30, 1990, RTC placed $8.2 billion of assets under SAMDA; (6) RTC had inadequate internal controls in the areas of contractor oversight, staff guidance, separation of duties, and personnel supervision; (7) as of November 1990, RTC completed a draft outlining a program for contractor oversight, but the directive did not contain specific standards regarding contractor performance; (8) RTC inadequately managed information resources; and (9) RTC was approaching a funding crisis, and without sufficient funds, RTC would have to slow down its resolution activity.

Resolving Failed Savings and Loan Institutions: Estimated Costs and Additional Funding Needs (GAO/T-AFMD-90-32, Sept. 19, 1990)

Background

GAO discussed (1) RTC's funding needs and (2) RTC, its Oversight Board's, and the Congressional Budget Office's (CBO) cost estimates for resolving failed and troubled savings institutions.

Findings

GAO noted that (1) the Office of Thrift Supervision developed a rating system to measure the relative health of an individual institution's financial conditions, compliance with laws and regulations, and overall operating soundness; (2) RTC, the Board, and CBO used similar methodologies to calculate their resolution cost estimates; (3) RTC will need at least another $50 billion in resolution funding to orderly and expeditiously close failed thrifts, but without additional funding RTC will be unable to continue resolving institutions and the resolution cost will continue to increase; (4) the total cost for completing the savings and loan cleanup will range between $335 billion to $370 billion, excluding general Treasury financing costs; (5) due to legislative changes concerning RTC funding sources, the obligations limit formula allowed RTC an additional $18.8 billion in borrowing authority.

Thrift Resolutions: Estimated Costs of FSLIC's 1988 and 1989 Assistance Agreements Subject to Change (GAO/AFMD-90-81, Sept. 13, 1990)

Background

Pursuant to a legislative requirement, GAO reported on the cost of the Federal Savings and Loan Insurance Corporation's (FSLIC) assistance agreements entered into between January 1, 1988, through August 9, 1989. These agreements, now managed by the Federal Deposit Insurance Corporation (FDIC), provide financial assistance to thrifts that acquired the assets of insolvent institutions.

Findings

GAO found that (1) the cost estimate at March 31, 1990, for the FSLIC assistance agreements was $67 billion—$5.1 billion more than the original estimates made when the agreements were finalized in 1988 and 1989; (2) estimated payments to be made after March 31, 1990, represented a current cost of $39.1 billion when computed on a present-value basis; (3) such related uncertainties as regional real estate markets, future interest rate levels, and the success of FDIC covered asset management and disposition strategies will significantly affect the actual assistance payments; (4) FSLIC incurred costs other than assistance payments as a result of such agreements, including monitoring fees, legal fees, and audit fees; and (5) assisted thrifts were expected to receive $8.5 billion in tax benefits of which FSLIC estimated its share through assistance payment reductions to be $4.3 billion.

Bank Insurance Fund: Additional Reserves and Reforms Needed to Strengthen the Fund (GAO/AFMD-90-100, Sept. 11, 1990)

Background

GAO (1) audited the Bank Insurance Fund's financial statements for the years ended December 31, 1989, and 1988, and (2) discussed serious problems facing the banking industry, the Fund's ability to deal with those problems, and reforms to strengthen the Fund.

Findings

GAO found that (1) the financial statements presented fairly in all material respects the Fund's financial position at December 31, 1989, and 1988, and the results of its operations and cash flows for the years ended December 31, 1989, and 1988, in conformance with generally accepted accounting principles; (2) the Fund had no material weaknesses in its internal control structure that could potentially affect the financial statements; and (3) FDIC complied with those provisions of laws and regulations GAO tested that, if not complied with, could have a material effect on the Fund's financial statements. The financial audit report cautioned that the Fund's statements did not include the estimated costs of anticipated bank failures, since those costs did not meet the degree of certainty for loss recognition established by accounting principles. GAO believes that those principles may unduly delay the recognition of losses that could substantially reduce the Fund's balance. GAO also found that (1) although the Fund had the resources to handle anticipated bank failures in 1990, its low level of reserves, coupled with a recession, could lead to a level of bank failures that would exhaust the Fund and require taxpayer assistance; (2) the Fund ended 1989 with a net loss of $852 million, which reduced its balance to $13.2 billion; (3) the increasingly risky nature of loan portfolios was the leading cause of problems within the banking industry; (4) 35 banks were in such severe financial condition that they were likely to fail or require assistance within the next year, and about 1,100 banks had serious financial problems; (5) the ratio of the Fund's balance to insured deposits stood at 0.7 percent, the lowest level ever; (6) the Fund was not likely to reach its legislatively required minimum reserve ratio of 1.25 percent by 1995; (7) the Fund was contingently liable for $8 billion of troubled assets held by acquirers of failed banks; and (8) the supervisory and examination process is unable to provide the early warning needed to deal with troubled banks due to inadequate on-site examination coverage, unrealistic asset appraisals, and overly optimistic accounting and reporting by banks.

Recommendation to Congress

Recommendation

Congress should amend the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to give the Chairman, FDIC, the authority to raise rates beyond those provided in FIRREA so that the Bank Insurance Fund achieves the minimum reserve ratio of 1.25 percent designated in FIRREA by 1995.

Status

Action completed (closed).

In November 1990, Congress amended the assessment rate restrictions in FIRREA, giving FDIC more flexibility in setting rates. FDIC used this authority in 1991 to bring in $1 billion in additional revenue to the Fund. The FDIC Improvement Act of 1991 contains provisions for rebuilding the Fund over a 15-year period.

Status Change Date

10/07/91

Recommendations to Agencies

Recommendation 1

The Chairman, Federal Deposit Insurance Corporation (FDIC), the Chairman, Federal Reserve Board (FRB), and the Comptroller of the Currency should annually perform on-site, full-scope examinations of problem banks and large banks.

Status

Action completed (closed).

The FDIC Improvement Act of 1991 requires regulators to conduct full-scope, on-site examinations of insured depository institutions annually for institutions with total assets equal to or greater than $100 million and once every 18 months for well-capitalized, well-managed institutions with total assets of less than $100 million. The act provides a transition period through December 31, 1993.

Status Change Date

05/06/92

Recommendation 2

The Secretary of the Treasury should ensure that Treasury's study of deposit insurance reform determines the reasonableness of the minimum and maximum reserve ratios designated by FIRREA in light of the banking industry's present condition and the exposure of the Bank Insurance Fund.

Status

Recommendation no longer applicable (closed).

Treasury's study did not address the reasonableness of reserve levels. In November 1990, Congress amended FIRREA, removing the maximum reserve ratio and requiring FDIC to determine what would be the most appropriate target level for the Fund, provided it achieves a minimum reserve ratio of 1.25 percent of insured deposits.

Status Change Date

05/06/92

Recommendation 3

The Chairman, FDIC, should revise FDIC guidelines for recorded values of assets held in separate asset pools to include a critical review of the appraisers' underlying assumptions in valuing assets acquired from failed banks or assets maintained in separate asset banks and adjust recorded values, if necessary, to reflect those assets' realistic values in light of their historical experience and current conditions.

Status

Action completed (closed).

FDIC believes its guidelines are sufficient; however, it has agreed to analyze its collection experience on a quarterly basis in order to evaluate the reasonableness of its loss reserves, which are dependent on valid asset appraisals. GAO work being initiated on quarterly sales activity, required under the FDIC Improvement Act of 1991, will continue to monitor appraisal reasonableness.

Status Change Date

09/23/92

Recommendation 4

The Chairman, FDIC, should monitor the use of separate asset pools to ensure that the Bank Insurance Fund has cash resources to meet its commitments.

Status

Recommendation no longer applicable (closed).

The FDIC Improvement Act of 1991 provides borrowing authority for the Fund but imposes a limitation on these borrowings. Prior to entering into new commitments or incurring new obligations, the Fund must meet a maximum obligation limitation (MOL) test. Commitments under separate asset pool arrangements are included in an MOL formula that determines the amount of borrowing authority available.

Status Change Date

05/06/92

Recommendation 5

The Secretary of the Treasury should ensure that Treasury's study of deposit insurance reform determines a reserve ratio target that would protect taxpayers by maintaining the Fund in the event of recession.

Status

Recommendation no longer applicable (closed).

The Treasury study issued in February 1991 noted that there is no known scientific means of deriving an optimum level for the Fund. The study noted that over time it might be desirable to return the Fund to the FIRREA target of 1.25 percent of insured deposits and maintain it at that level or higher.

Status Change Date

10/07/91

Recommendation 6

The Secretary of the Treasury should ensure that Treasury's study of deposit insurance reform determines means in addition to premium assessments, such as increased capital levels in banks, that would reduce the Fund's potential liabilities. The results of this study should be reported to Congress in a timely manner.

Status

Action completed (closed).

The Treasury study, issued February 1991, outlined the means, other than increased assessments, to reduce the Fund's exposure. Several of these proposals, such as risk-based premiums and restricting insurance coverage, were enacted into law under the FDIC Improvement Act of 1991. Others, such as interstate banking, were not adopted.

Status Change Date

05/06/92

Obligations Limitation: Resolution Trust Corporation's Compliance as of March 31, 1990 (GAO/AFMD-90-101, July 27, 1990)

Background

Pursuant to a congressional request, GAO reviewed the quarterly report on RTC's compliance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to determine whether (1) RTC included all the required categories in its calculations and (2) the values reported appeared reasonable for select components of the calculations.

Findings

GAO found that (1) none of the categories for the formula required by FIRREA were omitted; (2) the failure to reasonably estimate the fair market value of assets could result in overstated future RTC obligations; (3) noncompliance with RTC policy concerning advances made to conservatorships could affect the return on asset recoveries, thereby increasing resolution costs; (4) giving representations and warranties to the secondary market and contracting services with the private sector, if adopted, may result in additional obligations; and (5) RTC needs to establish the basis for measuring the reasonableness of fair market values for receivership assets.

Recommendations to Agencies

Recommendation 1

The RTC Executive Director should take the necessary actions to ensure that future RTC quarterly reports to the Chairman, House Committee on Banking, Finance and Urban Affairs, disclose actual results on asset sales in comparison with estimates.

Status

Action completed (closed).

The Refinancing, Restructuring, and Improvement Act of 1991 requires RTC to quarterly report to the House and Senate Banking Committees asset sales information for the preceding quarter. The Committees did not request a comparison of actual and estimated sales prices, and RTC plans to capture this information for only a sample of its assets.

Status Change Date

05/06/92

Recommendation 2

The RTC Executive Director should take the necessary actions to ensure that RTC policies and guidelines on advances to conservatorships are clarified and followed.

Status

Action completed (closed).

RTC has implemented certain procedural and reporting changes to enhance internal controls over advances to conservatorships. The new policies and procedures provide clear guidance regarding required documentation. In addition, RTC has reassigned responsibility for maintaining headquarters file documentation and determined that the cost of perfecting secured claims far outweighs the risk of loss.

Status Change Date

04/15/91

Recommendation 3

The RTC Executive Director should take the necessary actions to ensure that, if representations and warranties are given in connection with the sale of asset-backed receivables and mortgage service rights, an appropriate estimate of the resulting contingent liabilities be made and reflected in the RTC obligation limitation calculation.

Status

Action completed (closed).

RTC has implemented a national database to track warranties and representatives and has established an administrator in each region to monitor activity. As of December 31, 1990, RTC made representations and warranties on nearly $10 billion of loans and servicing rights for which it has reserved about $42 million to cover related contingent liabilities.

Status Change Date

10/01/91

Resolving the Savings and Loan Crisis: Billions More and Additional Reforms Needed (GAO/T-AFMD-90-15, Apr. 6, 1990)

Background

GAO discussed the Federal Savings and Loan Insurance Corporation's (FSLIC) financial statements as of August 1989, focusing on how much money would be needed to resolve the savings and loan crisis.

Findings

GAO found that (1) FSLIC needed $325 billion to pay off its obligations, resolve the problems of institutions awaiting resolution, pay interest on $30 billion in bonds, and pay some administrative expenses; (2) legislation authorized $50 billion to cover certain costs, but RTC needed to develop proposals to provide additional funds; (3) the actual costs needed to resolve troubled institutions depended on the extent of operating losses, the quality and value of their assets, and future interest rates; and (4) the funds necessary to pay for FSLIC obligations will come from the sales of assets in FSLIC receiverships, insurance premiums assessed against savings institutions until the end of 1991, and Treasury appropriations. GAO also found that (1) the estimated cost to resolve the crisis did not include any interest Treasury would incur on funds it would have to borrow to provide its share of the total funds needed; (2) RTC had sufficient funds to start resolving the problems of institutions currently in conservatorship; and (3) fraud, insider abuse, and mismanagement were evident at each institution it reviewed.

Recommendations to Agencies

Recommendation 1

The Chairman, RTC Oversight Board, in consultation with the Chairman, Federal Deposit Insurance Corporation (FDIC), should begin developing proposals to deal with the current total shortfall between the $50 billion the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) provided and the amount of funds RTC will need for resolutions, administrative expenses, and interest costs on any working capital funds it borrows.

Status

Action completed (closed).

The Oversight Board, in consultation with FDIC, has estimated RTC funding needs and indicated various methods for Congress to provide the needed funds. This information has been stated in various testimonies before the House and Senate.

Status Change Date

09/28/90

Recommendation 2

The Chairmen, RTC Oversight Board and FDIC, should jointly report at least semiannually to Congress on the revised total cash needs, net costs, and sources of funds to pay for FSLIC obligations, RTC resolutions, and related costs.

Status

Action not responsive (open).

The Oversight Board does not think information on total needs is reasonably estimable or useful. However, GAO is continuing to encourage development of such estimates, since Congress needs "best estimates" of total cost in order to determine amounts and sources of funding.

Status Change Date

09/28/90

Failed Thrifts: Resolution Trust Corporation and 1988 Bank Board Resolution Actions (GAO/T-GGD-90-29, Apr. 2, 1990)

Background

GAO discussed RTC's resolution of insolvent thrifts.

Findings

GAO noted that (1) RTC had either sold or liquidated 52 thrifts and placed 350 thrifts in its conservatorship program as of March 21, 1990; (2) RTC expected to become responsible for resolving 558 to 628 institutions; (3) the pace and structure of RTC resolutions and its marketing and selection process represent a significant improvement over those of the Federal Home Loan Bank Board (FHLBB); (4) RTC assigned the highest priority to disposing of thrifts with the most rapidly mounting losses; (5) RTC did not always act quickly enough to sell thrifts where high buyer interest was demonstrated; (6) proper implementation of RTC thrift-resolution policies should ensure avoidance of risk exposure, cost, and uncertainties that existed and continue to exist for FHLBB resolutions; (7) RTC experienced high turnover of conservatorship managing agents; (8) RTC acquired many of its conservatorship agents from the private sector, and they were not familiar with the Federal Deposit Insurance Corporation's culture, policies, and procedures; (9) there was not adequate guidance regarding managing and downsizing of thrifts under the conservatorship program; and (10) it was continuing its review of federal investigations of illegal and improper acts that could have contributed to thrift failures.

Thrift Crisis: Strategic Plan for Resolution Trust Corporation and Management of FSLIC Deals (GAO/T-GGD-90-14, Jan. 25, 1990)

Background

GAO discussed its review of the (1) RTC Oversight Board's strategic plan for resolution of thrifts with appointed conservators or receivers and (2) cost and management of the Federal Savings and Loan Insurance Corporation's (FSLIC) thrift resolutions that occurred between 1988 and the establishment of RTC.

Findings

GAO noted that, although the strategic plan presented the Oversight Board's policies in a reasonably comprehensive and understandable manner, the plan lacked adequate information regarding (1) the proposed method for acquiring working capital; (2) the applicability of legislative provisions to thrifts still in conservatorship; (3) harmonization of the sale of assets held by federal agencies; (4) RTC organization and management processes, including its method of monitoring cost exposure, expenditures, and conflict-of-interest abuses; and (5) policies for implementing the RTC menu approach to sales of institutions. GAO also noted that the Federal Deposit Insurance Corporation, which was responsible for managing the FSLIC-resolved thrift assistance agreements, did not (1) complete the initial inventory audits of acquired thrifts; (2) provide guidance on appropriate asset management and disposition strategies; and (3) develop a covered asset tracking system.

Government Financial Vulnerability: 14 Areas Needing Special Review (GAO/OCG-90-1, Jan. 23, 1990)

Background

Pursuant to a congressional request, GAO described its planned special audit of 14 federal programs that it believed to be particularly vulnerable to mismanagement, fraud, abuse, and major losses of funds due to poor internal control and financial management systems.

Findings

GAO noted that it planned to investigate the (1) Resolution Trust Corporation's management and disposal of approximately $200 billion to $300 billion in thrift assets; (2) potential for reducing or stabilizing the growth of the Internal Revenue Service's accounts receivable; (3) Customs Service's and the U.S. Marshals Service's management of seized and forfeited assets; (4) extent to which private insurers should pay questionable Medicare claims; (5) underfunding of Pension Benefit Guaranty Corporation-insured employee benefit plans; (6) effectiveness of bank, federal and state government, and school student loan accounting systems; (7) Department of State's management of overseas real property; (8) Department of Defense's (DOD) inventory management systems; (9) DOD acquisition of major systems; (10) National Aeronautics and Space Administration's decentralized contract administration process; (11) Farmers Home Administration loan program losses; (12) Environmental Protection Agency's (EPA) enforcement of private parties' financial responsibilities in cleanups of contaminated sites and EPA oversight and management of cleanup contractors; (13) Urban Mass Transportation Administration's grant application review process and project oversight; and (14) Department of Energy's contractor oversight and award fees.

Resolution Trust Corporation Oversight Board: GAO Views on Strategic Planning Efforts (GAO/T-GGD-90-10, Nov. 6, 1989)

Background

GAO discussed RTC Oversight Board's draft strategic plan.

Findings

GAO noted that the draft (1) specified general program goals and all of the important policy areas for which RTC had to make decisions; (2) did not specify policies for resolving institutions, managing assets, and meeting other provisions of the law that established RTC; and (3) directed RTC to establish procedures for carrying out other legislative provisions by certain dates but did not delineate those procedures. GAO believes that (1) the draft could serve as a statement of issues and goals upon which the public could comment; (2) it is unclear how the Board will be able to meet its December 1989 deadline for establishing all policies, and it may have been unreasonable to expect the Board to resolve all policy issues by that date; and (3) the Board should subject finalized policies to congressional oversight to achieve clear understanding of how RTC intends to carry out its mission and to obtain clear operations evaluation criteria.

Failed Thrifts: RTC's Working Capital Needs (GAO/T-GGD-90-7, Oct. 31, 1989)

Background

GAO discussed financing for RTC, focusing on (1) RTC need for working capital and alternative approaches to raising it and (2) proposed legislation that would limit the borrowing authority of RTC and other federal agencies.

Findings

GAO noted that (1) RTC needs working capital to resolve failed thrift institutions because the cost of resolution will greatly exceed the value of thrift assets; (2) without working capital the pace of RTC resolutions will be dictated by the speed with which RTC can liquify its acquired assets; (3) the least costly form of financing for RTC would be direct Treasury borrowing, which would also fully reflect the impact of RTC activities on the federal budget deficit; (4) creating an off-budget entity to hold assets as collateral for RTC borrowing would be far more costly and would violate the integrity of the budget process; and (5) proposed legislation to limit the borrowing authority of RTC and other agencies would severely hamper RTC ability to fulfill its difficult mission.

Comprehensive Deposit Insurance Reform and Taxpayer Protection Act of 1991: Observations on Accounting Reforms and Funding for the Bank Insurance Fund (GAO/T-AFMD-92-3, Dec. 11, 1991)

Background

GAO discussed recently passed legislation regarding bank deposit insurance protection, focusing on (1) the level of funding the act provides for the Bank Insurance Fund and (2) accounting reforms.

The Comptroller General's testimony focuses on the Comprehensive Deposit Insurance Reform and Taxpayer Protection Act of 1991 recently passed by Congress. This legislation contains accounting, auditing, and regulatory reforms that are urgently needed to strengthen the safety and soundness of the banking system as well as give regulators a more accurate early warning of emerging problem institutions. The Comptroller General discusses two critical components of the legislation—the level of funding the bill provides for the Bank Insurance Fund and the accounting reforms. In particular, GAO is concerned that a new interagency policy statement on how regulators are to classify real estate assets held by banks may seriously add to the problem of unreliable financial data by allowing assets to be overvalued, with losses hidden.

Findings

GAO noted that (1) the legislation provides the Fund with approximately $70 billion in borrowing authority to resolve problem banks; (2) $30 billion of that amount is for losses the Fund incurs in resolving troubled institutions; (3) the remaining balance is for the Fund's working capital needs; (4) regulators need these funds to act quickly to resolve problems institutions as well as prevent the ultimate cost to the Fund from escalating; and (5) the timing and thrust of the legislation provides the framework to deal with flawed accounting rules that allow banks to conceal loan losses.

GAO Products on RTC Conservatorships and Resolutions

Resolution Trust Corporation Professional Liability Section Restructuring (GAO/GGD-93-5R, Nov. 18, 1992)

Background

GAO reviewed the impact of the RTC's restructuring and downsizing of its Professional Liability Section (PLS), focusing on the (1) number of savings and loan cases in that the statute of limitations expired due to staff reductions; (2) projected number of cases that will expire before RTC restores its staff levels; and (3) potential amount of money that RTC could have recouped if cases were successfully tried.

Findings

GAO noted that (1) the statute of limitations expired for 18 savings and loan claims; (2) RTC filed claims totalling $1.135 billion against 8 of the 18 institutions for which the statute of limitations expired; (3) RTC operated with approximately half of the required professional liability attorneys; (4) 80 institutions have statutes of limitations that will expire at the end of 1992; (5) RTC must make filing decisions for 390 cases by the end of 1994; (6) it was not possible to calculate the amount that RTC could have recouped if cases had been successfully tried; and (7) reasons for not filing claims include particular actions not meeting legal or evidence standards and claims that are not cost-effective.

Bank and Thrift Failures: RTC Needs to Improve Planning for Professional Liability Staff Changes (GAO/T-GGD-92-69, Aug. 11, 1992)

Background

GAO discussed RTC's attorney staffing for its Professional Liability Program, focusing on the effect of assignment changes on attorney responsibilities.

Staffing problems have thrown into turmoil RTC's program to pursue professional liability claims arising from bank and thrift failures. Since March 1992, five of seven senior managers in the program have left or been reassigned, as have about 40 percent of all professional liability attorneys on board at the end of February 1992. These staffing shortages are coming at a time when the program's work load is expanding and statutes of limitations are running out. If these deadlines are unmet, then cases will be lost and the assets of the directors, officers, and other professionals who caused financial institutions to collapse will go unrecovered. Recent RTC downsizing policies have been ill-defined, and staffing transitions have been anything but orderly. Pivotal attorneys were removed from assignments at a time when the work demanded regular and systematic attention. Although changes among professional liability staff are inevitable as RTC is dissolved and work is transferred to the Federal Deposit Insurance Corporation, RTC needs to do a much better job of planning for these changes and ensuring smooth transitions.

Findings

GAO noted that (1) staffing shortages and changes have led to program disruptions; (2) the program employs 70 attorneys, which is about half of the number needed; 40 percent of RTC professional liability attorneys have left or been reassigned, including 5 of 7 senior officials; (3) due to the RTC merger with the Federal Deposit Insurance Corporation (FDIC), professional liability staff have been reduced or reorganized, causing program disruptions, staff anxiety, and demoralization; (4) expanding attorney work loads and statutes of limitation make staffing disruptions costly; and (5) effective management and communication is needed to provide a better transfer of RTC staff to FDIC to ensure minimum disruptions to the program.

Thrift Resolutions: FSLIC 1988 and 1989 Assistance Agreement Costs Subject to Continuing Uncertainties (GAO/AFMD-92-78, Aug. 3, 1992)

Background

GAO provided information on the costs of the Federal Savings and Loan Insurance Corporation's (FSLIC) 1988 and 1989 assistance agreements. These agreements, now managed by the RTC and accounted for by the Federal Deposit Insurance Corporation (FDIC), provide financial help to savings and loans that have acquired the assets of insolvent institutions.

Findings

GAO found that (1) the cost estimate at December 31, 1991, for FSLIC assistance agreement payments totaled $56.1 billion—a decrease of $9.1 billion resulting from future interest cost savings due to $15.7 billion in note payable prepayments; (2) prepayments using Treasury funds primarily shifts the cost of borrowing from the FSLIC Resolution Fund to the Treasury—however, the prepayments could actually save $1.2 billion in overall costs; (3) estimated future payments for assistance agreements are subject to change due to instabilities in the local real estate markets, interest rate fluctuations, and future use of appropriated funds; and (5) the agencies have not implemented GAO recommendations for strengthening their policies and procedures.

Asset Valuation Reviews and Cost Test (GAO/GGD-92-17R, June 16, 1992)

Background

GAO reviewed RTC's implementation of the cost test used in making resolution decisions to determine whether RTC was applying the cost test properly and whether it was a valid reflection of market values.

Findings

GAO noted that (1) the RTC guidelines formerly in effect contained elements necessary to arrive at reasonable estimates of market value, although some weaknesses in the implementation of the asset valuation review (AVR) process cause concern as to the reasonableness of the asset valuations and (2) in April 1992, RTC could not determine whether AVRS were done in accordance with applicable policies and procedures and whether the asset valuations were reasonable or reliable, due to poor or nonexistent supporting documentation.

Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue Professional Liability Claims (GAO/T-GGD-92-42, June 2, 1992)

Background

GAO discussed the Federal Deposit Insurance Corporation's (FDIC) and RTC's efforts to purse civil professional liability claims arising from bank and thrift failures.

During the past 6 years, more than 2,000 banks and thrifts have failed or been placed in conservatorship at a cost of billions of dollars to taxpayers and insurance funds. Although suspected wrongdoing by directors, officers, and other professionals was a key factor in about 75 percent of these cases, weak oversight and understaffing at regulatory agencies have sharply curtailed the recovery of lost funds through civil liability claims. For instance, the Federal Deposit Insurance Corporation has filed claims for only 20 percent of the bank failures in 1988, while RTC has claims pending for fewer than half of the thrift failures occurring in the first four months of 1989.

Staffing shortages, lack of standardized and systematic asset-tracing procedures, and poor oversight have all hampered the agencies' pursuit of potential claims. Compounding these problems are uncertainties dogging the future of RTC's professional liability program.

Findings

GAO noted that (1) RTC and FDIC officials estimate that possible fraud or negligence was present in more than three-fourths of failed banks and thrifts, 90 percent of which was on the part of directors, officers, and other professionals associated with the institutions; (2) since 1989, FDIC and RTC have recovered nearly $1 billion from professional liability claims and settlements, and officials estimate that 95 percent of those recoveries came from insurance companies; (3) as of March 1992, FDIC had filed 41 claims against about 20 percent of the banks that failed in fiscal year 1988, while RTC had claims pending against about 41 percent of the 218 thrifts that failed from January through April 1989; (4) FDIC and RTC do not always file claims in cases of suspected wrongdoing when the particular activity might not meet the legal or evidentiary standard or when pursuing the claim might not be cost-effective; and (5) other factors within RTC and FDIC control have hampered their litigation efforts, such as inadequate staffing, resulting in cases passing the statute of limitations, inadequate procedures to identify assets that could be recovered through potential claims, and inadequate management information to oversee the professional liability program. GAO believes that RTC and FDIC need to improve management of the professional liability program, since RTC plans to downsize and eventually dissolve operations in fiscal year 1996.

Recommendations to Agencies

Recommendation 1

FDIC and RTC should work together to plan for the future of the professional liability program. This planning needs to address how FDIC will assume responsibility for the RTC professional liability cases.

Status

Action not yet initiated (open).

Status Change Date

4/13/93

Recommendation 2

RTC and FDIC should develop (1) realistic staffing plans, (2) programs to ensure adequate asset tracing, and (3) improved management information for effective program oversight.

Status

Action not yet initiated (open).

Status Change Date

4/13/93

Qualifying Supervisory Goodwill (GAO/GGD-92-13R, May 26, 1992)

Background

Pursuant to a congressional request, GAO provided information on qualifying supervisory goodwill in the thrift industry, defined as goodwill resulting from the acquisition of problem thrifts.

Findings

GAO noted that (1) as of December 1991, 248 of the 2,096 thrifts in the industry held a total of about $3.9 billion in qualifying supervisory goodwill and $412.4 billion of assets; (2) 13 percent of those 248 thrifts meet the core capital requirements with the inclusion of goodwill in their core capital; (3) 12.5 percent of those 248 thrifts do not meet core capital requirements, even with the inclusion of supervisory goodwill; (4) it is more appropriate to consider an individual thrift's condition than to rely on historical resolution costs to determine estimated resolution costs for thrifts holding goodwill; and (5) 18 percent to 40 percent of the thrifts transferred quarterly to RTC during 1991 held goodwill.

Failed Thrift: Lengthy Government Control of Sunbelt Savings Bank (GAO/GGD-92-82, Apr. 28, 1992)

Background

Sunbelt Savings Bank was created in August 1988 when the Federal Home Loan Bank Board consolidated eight failed Texas thrifts and has been under federal control ever since. Pursuant to a congressional request, GAO reviewed (1) why a federal savings bank has remained under government control since August 1988 and (2) the costs and benefits of this control.

Findings

GAO found that (1) the Federal Savings and Loan Insurance Corporation (FSLIC) did not resolve the eight thrifts subsequently consolidated as the bank because no eligible acquirer came forward and FSLIC did not have the estimated $7.4 billion required to pay off insured deposits; (2) FSLIC determined that consolidating the thrifts into one institution would cost about $400 million less than liquidating the eight thrifts under a 10-year assistance agreement; (3) the Office of Thrift Supervision (OTS) held off on closing the bank and placing it in RTC conservatorship because OTS had confidence in the bank's management and was aware of the Federal Deposit Insurance Corporation's (FDIC) plans to market and resolve the thrift; (4) the ultimate cost of the bank's resolution will not be known until after all of its assets are sold, which could take many years, but when RTC resolves the thrift it will be required to prepare an estimate of the total resolution cost; (5) the money the bank borrowed from the Federal Home Loan Bank of Dallas to help fund its liquidity needs cost the government about $53 million more than if it had borrowed the money from the Treasury; and (6) some expenses authorized by FSLIC and FDIC to operate and improve the bank as a going concern in order to sell it as a whole thrift may not be fully recovered.

Recommendations to Agencies

Recommendation

The President and Chief Executive Officer, RTC, should instruct his staff to compare the RTC total resolution cost estimate with the estimated cost of an earlier liquidation to calculate whether there was a financial cost of the delay in resolving Sunbelt and, if so, the extent of such cost.

Status

Action in process (open).

Status Change Date

4/13/93

Thrift Resolutions: FSLIC 1988 and 1989 Assistance Agreement Costs Subject to Significant Uncertainties (GAO/AFMD-92-9, Nov. 18, 1991)

Background

Pursuant to a legislative requirement, GAO reported on the costs of assistance agreements that the Federal Savings and Loan Insurance Corporation (FSLIC) entered into between January 1, 1988, and August 9, 1989. These agreements, now managed by RTC and accounted for by the Federal Deposit Insurance Corporation (FDIC), provide financial assistance to thrifts that acquired the assets of insolvent institutions. Our work focused on the (1) reliability of the Federal Deposit Insurance Corporation's (FDIC) December 31, 1990, total projected payments and (2) status of RTC's plans for using fiscal year 1991 appropriated funds to prepay notes and renegotiate or buy out the assistance agreements.

Findings

GAO found that FDIC (1) projected at December 31, 1990, that payments for 1988 and 1989 FSLIC financial assistance agreements would exceed $65.4 billion; (2) paid about $14.6 billion to meet assistance agreement-related obligations and projected that it would pay an additional $50.8 billion over the remaining terms; (3) projections were subject to uncertainties regarding continuing instability in local real estate markets, future interest rate fluctuations, the effectiveness of RTC oversight of asset management strategies, and the impact of potential cost-saving options, which could lead to material changes in actual payments; and (4) failed to comply with procedural and documentation requirements related to valuing acquired assets, decreasing the reliability of payment projections.

Recommendations to Agencies

Recommendation 1

To improve the reliability of claim payment projections and strengthen RTC oversight of assistance agreements, the President and Chief Executive Officer, RTC, should develop and implement testing procedures to ensure that quarterly claim projections are prepared in accordance with established procedures.

Status

Action completed. To ensure that quarterly claim payment projections are prepared in accordance with its established procedures, RTC officials prepared and implemented general guidance for the review and approval of these projections. These guidelines include procedures to be applied to each of these projections and additional detailed review procedures to be applied to certain individual projections (closed).

Status Change Date

09/23/92

Recommendation 2

The President and Chief Executive Officer, RTC, should strengthen and modify the claim payment projection procedures by requiring RTC staff to compare factors used in projecting claim payments to those in approved asset management plans and to identify and explain any discrepancies.

Status

Action completed. To strengthen the claim payment projection procedures, RTC requires reviewers of the quarterly projections to document that specific factors used in projecting these payments are consistent with information contained in approved asset management plans (closed).

Status Change Date

09/23/92

Recommendation 3

The President and Chief Executive Officer, RTC, should strengthen and modify the claim payment projection procedures by requiring RTC staff to use the most current data available on asset valuations.

Status

Action completed. To strengthen the claim payment projection procedures, RTC requires that reviewers of these projections document that they are based on the most current asset valuations (closed).

Status Change Date

09/23/92

Savings and Loan Crisis: Federal Response to Fraud in Financial Institutions (GAO/T-GGD-90-61, Aug. 1, 1990)

Background

GAO discussed the federal response to fraud in depository institutions.

Findings

GAO noted that (1) in the past 4.5 years, 831 banks and 515 thrifts have failed and have been resolved; (2) of the 7,097 financial institution fraud investigations underway, 3,027 were major investigations involving banks', thrifts', and credit unions' potential losses of $100,000 or more; (3) the full cost of insured thrift failures could be as much as $500 billion; (4) Congress and the administration increased the resources allocated to financial institution fraud; (5) financial regulatory agencies developed new task forces and priority lists, and the Department of Justice (DOJ) appointed a Special Counsel for Financial Institution Fraud; (6) determining the adequacy of the federal response to financial institution fraud was difficult; (7) DOJ lacked a mechanism that would allow the Special Counsel access to the information needed to effectively oversee and coordinate efforts to pursue financial institution fraud; and (8) DOJ and regulatory agencies need to pay close attention to whether their newly expanded coordination initiatives are having the intended results by concentrating resources on the top priority targets and determining the best way to proceed against those targets.

GAO Products on RTC Information Resources Management

Resolution Trust Corporation: Review of Information Reporting Requirements for Asset Management Contractors (GAO/IMTEC-92-37BR, Mar. 5, 1992)

Background

Pursuant to a congressional request, GAO assessed RTC's reporting requirements for Standard Asset Management and Disposition Agreement (SAMDA) contractors who assist in the management and disposition of assets of failed thrifts.

Findings

GAO found that RTC (1) requires SAMDA contractors to provide to RTC oversight managers up to 20 monthly reports and 7 quarterly, annual, or final reports for each asset management contract; (2) oversight managers did not consistently use the contractually required reports and sometimes required additional reports to meet their oversight needs; (3) oversight managers questioned the usefulness and did not know the purpose of some reports; (4) requires oversight managers to monitor the submission of the required reports but does not provide them with guidance about the reports' purposes; (5) attributed some of the burdensome reporting requirements to legislative requirements but could not identify which requirements were unreasonable; and (6) requires SAMDA contractors to safeguard asset data but lacks guidance on how contractors can protect asset data in their automated systems. GAO also found that, to improve contractor oversight, RTC (1) has formed user groups to address information requirements; (2) plans to use its Asset Manager System and Real Estate Owned Management System to automate many of the required reports; and (3) has contracted for a review of contractor internal controls.

Resolution Trust Corporation: Status of Real Estate Owned Management System (GAO/IMTEC-92-36BR, Mar. 5, 1992)

Background

Pursuant to a congressional request, GAO assessed RTC's development of the Real Estate Owned Management System (REOMS), a RTC-wide system to support the management and sale of real estate assets formerly held by failed thrifts.

Findings

GAO found that RTC (1) cannot fully use REOMS because of system limitations that do not adequately support its information needs regarding asset management, financial management, and real estate asset sales; (2) continues to have incomplete and inconsistent real estate records because it has not ensured that REOMS has complete and accurate real estate data; and (3) lacks a strong project management structure and has not clearly specified the lines of authority and responsibility for critical system development decisions. GAO also found that, to address REOMS problems, RTC has (1) transferred systems development responsibilities to another division to place more emphasis on systems development and increase user involvement; (2) designated a REOMS project manager to be accountable for future system enhancements; and (3) formed user groups to provide more input about systems development.

Resolution Trust Corporation: Status of Asset Manager System (GAO/IMTEC-92-34BR, Mar. 5, 1992)

Background

Pursuant to a congressional request, GAO provided information on RTC's development of the Asset Manager System (AMS), a RTC-wide system for contractors who manage assets formerly held by failed thrifts.

Findings

GAO found that RTC (1) has 184 contracts with about 100 contractors to manage about $37 billion in failed thrifts' assets; (2) plans to use AMS for automating the accounting and budgeting processes for all contractor-managed assets and for transferring funds to and from contractors; (3) has spent about $2 million and expects to spend an additional $6 million for AMS software development and enhancements; (4) must address AMS interface limitations, inadequate controls, and the lack of contractor performance monitoring capabilities if AMS is to provide the anticipated benefits; (5) has not clearly defined the specific processes that AMS is to automate; (6) did not obtain adequate input from contractors or oversight managers during AMS development; and (7) has experienced implementation delays because of inadequate project management. GAO also found that, to address AMS development and implementation problems, RTC (1) has transferred systems development responsibilities to another division to emphasize systems development; (2) has formed a user group and tasked it with identifying, documenting, prioritizing, and communicating the business needs that AMS should address; (3) is evaluating options for modifying AMS accounting interfaces with contractors' systems; and (4) is taking steps to improve its electronic funds transfer controls.

Resolution Trust Corporation: Status of Loans and Other Assets Inventory System (GAO/IMTEC-92-35BR, Mar. 5, 1992)

Background

Pursuant to a congressional request, GAO provided information on RTC's efforts to develop the Loans and Other Assets Inventory System (LOAIS), a RTC-wide system for managing and selling loans and other assets formerly held by failed thrifts.

Findings

GAO found that RTC (1) has inadequately defined its corporate strategy and the business processes to be automated and cannot effectively address user, interface, and performance needs without such definitions; (2) has not clearly specified the lines of authority and responsibility for making critical development decisions, resulting in poor project management; (3) has encountered problems during attempts to load data from loan servicing contractors and has found the task to be more complex and time-consuming than it anticipated; and (4) considers LOAIS implemented but continues to define and change requirements for users, system interface, and performance. GAO also found that, to address LOAIS implementation problems, RTC has (1) transferred system development responsibilities to another division to emphasize systems development and increase user involvement; (2) formed a user group and tasked it with identifying, documenting, prioritizing, and communicating the business needs that LOAIS should address; and (3) met with industry and government officials to discuss business strategies and system support for managing and selling assets.

Resolution Trust Corporation: Corporate Strategy Needed to Improve Information Management (GAO/IMTEC-92-38, Mar. 5, 1992)

Background

Pursuant to a congressional request, GAO provided information on RTC's development of (1) the Real Estate Owned Management System (REOMS) intended to support the management and sale of real estate assets formerly held by failed thrifts; (2) the Loans and Other Assets Inventory System (LOAIS) intended to provide RTC managers with information to manage loans and other assets formerly held by failed thrifts; (3) the Asset Manager System (AMS) intended to assist RTC in managing the activities of asset management contractors; and (4) reporting requirements for contractors assisting in the disposition of assets formerly held by failed thrifts.

Findings

GAO found that RTC (1) has partially deployed REOMS, LOAIS, and AMS without following sound information resources management principles and without adequately defining systems requirements, resulting in the systems' inability to meet requirements; (2) has spent about $14 million and expects to spend an additional $13 million on REOMS, which is unable to provide accurate information on assets for sale or for grouping assets for sales programs or management reports on the results of sales programs; (3) has spent about $4 million and expects to spend an additional $6 million on LOAIS but has still not identified users' information needs, has experienced complex and time-consuming data entry problems, and has experienced a lack of cooperation from some contractors in developing LOAIS automated interfaces; (4) has spent about $2 million and expects to spend an additional $6 million on AMS but needs to address system limitations involving the electronic transfer of accounting data from contractors' systems, inadequate internal controls for electronic funds transfers, and the inability to provide corporatewide information on contractor performance; and (5) reporting requirements for contractors assisting in asset disposition are burdensome, may be unnecessary, and may not provide all the information RTC needs. GAO also found that RTC, to address the identified problems, has (1) transferred many systems development responsibilities to another division to place greater emphasis on meeting users' needs and (2) formed user groups to identify and prioritize business needs.

Recommendations to Agencies

Recommendation 1

To ensure that RTC asset management systems adequately support the management and sale of failed thrift assets, the President and Chief Executive Officer, RTC, should strengthen RTC systems development practices.

Status

Action in process (open).

To strengthen its system development practices, RTC requires that a program manager, a system project manager, and a business analyst work as a team to ensure that systems are developed to meet corporate business needs. System user groups meet to monitor system progress and provide feedback as to whether the system is meeting their needs. RTC top managers receive and review monthly status reports.

Status Change Date

4/13/93

Recommendation 2

The President and Chief Executive Officer, RTC, should define business strategies for assets and contractors. This action should include milestones so that progress can be determined by Congress and RTC.

Status

Action in process (open). RTC has made significant changes to improve the three asset systems. Needed data elements for REOMS have been identified, and REOMS system limitations are being corrected and data integrity is being improved. AMS is being redesigned to better meet asset manager contractor's needs, and controls over AMS electronic funds transfers are being strengthened. RTC discontinued its development of LOAIS.

Status Change Date

4/13/93

Recommendation 3

The President and Chief Executive Officer, RTC, should match information needs to those defined business strategies. This action should include milestones so that progress can be determined by Congress and RTC.

Status

Action in process (open).

RTC is defining corporationwide business strategies for 21 priority areas designated by the RTC President and Chief Executive Officer. These priority areas include RTC asset sales and asset manager reporting. Until these strategies are defined, RTC asset systems are being developed and implemented according to the information needs defined by asset system user groups, which represent both corporate and field organizational units.

Status Change Date

4/13/93

Recommendation 4

The President and Chief Executive Officer, RTC, should develop systems to provide timely, accurate, and complete information, which is needed by RTC and its contractors to manage and sell failed thrift assets. This action should include milestones so that progress can be determined by Congress and RTC.

Status

Action in process (open).

RTC asset systems are being developed and implemented according to the information needs defined by asset system user groups. Top managers review the status of major systems and must approve major system changes. RTC has undergone changes to restructure its field operations, which may affect the way it conducts its asset management and sales, and may not know whether its systems are meeting needs.

Status Change Date

4/13/93

Resolution Trust Corporation: Automation Efforts Need Management Attention (GAO/T-IMTEC-91-1, Oct. 16, 1990)

Background

GAO discussed RTC's management of its Real Estate Owned Asset Management System, which tracks RTC management and disposal of real estate assets.

Findings

GAO noted that (1) RTC strengthened its information resources management (IRM) activities by developing strategic IRM principles and systems architecture; (2) the absence of adequate management planning and controls could result in cost overruns, schedule delays, and delivery of systems that do not meet mission needs; and (3) a broad contract could lock RTC into a technology solution before it completes its strategic IRM planning and formulation of systems architecture. GAO believes that (1) RTC actions to develop its IRM framework are steps in the right direction; (2) the broad scope of the contract could prematurely establish the foundation for all RTC systems; and (3) sound management principles would minimize the risk of incurring unnecessary costs, long delays, and elusive benefits.

Recommendations to Agencies

Recommendation 1

Before awarding the Real Estate Owned Asset Management System contract, RTC should develop a strategic IRM plan and systems architecture to meet its information needs.

Status

Action not responsive (open).

RTC prepared a strategic IRM plan and systems architecture in December 1990, 1 month before the REOMS contract was awarded in January 1991. However, the plan and architecture were incomplete in that they did not show how corporate data would flow or how RTC systems, including the REOMS system, would fit together to accomplish the RTC mission.

Status Change Date

09/30/91

Recommendation 2

Before awarding the Real Estate Owned Asset Management System contract, RTC should ensure that the system requirements and technical approach for automating its real estate asset information and other information needs are in accordance with this plan and architecture.

Status

Action not responsive (open).

In February 1991, after the contract was awarded, RTC established a REOMS task force to define its real estate asset information needs and system requirements. However, this task force never formally defined REOMS system requirements or identified REOMS information and system needs at all operating levels. Until these needs are identified and assessed, RTC will not know all the functions needed.

Status Change Date

09/30/91

Recommendation 3

Before awarding the Real Estate Owned Asset Management System contract, RTC should establish a project management process for tracking the contractor's progress, providing direction to the contractor's efforts and formally accepting the system.

Status

Action completed (closed).

RTC established a project management process at the time of the contract award to track the contractor's progress, provide direction to the contractor's efforts, and formally accept the system deliverables and the system upon implementation.

Status Change Date

09/30/91

Resolution Trust Corporation: Stronger Information Technology Leadership Needed (GAO/IMTEC-90-76, July 23, 1990)

Background

Pursuant to a legislative requirement, GAO reviewed (1) the adequacy of key components of RTC's information resources management (IRM) and (2) the RTC Oversight Board's role in reviewing current and planned use of information resources.

Findings

GAO found that (1) RTC lacked central leadership in agency IRM activities and there were no clear lines of accountability, authority, and responsibility for managing information resources; (2) RTC had not prepared a comprehensive IRM strategic plan defining management's vision of automation's role in achieving its mission; (3) RTC planned to purchase and use information technology without developing a systems architecture; and (4) the RTC Oversight Board did not oversee key RTC activities related to defining information needs and selecting appropriate equipment.

Recommendations to Agencies

Recommendation 1

As part of its planned oversight of RTC IRM, the RTC Oversight Board should oversee RTC plans to strengthen its IRM leadership.

Status

Action completed (closed).

RTC established an Office of Corporate Information on September 4, 1990. Most of the positions, including all key positions, for this office have since been staffed. The RTC Oversight Board believes that RTC IRM staffing is adequate to provide the needed IRM leadership.

Status Change Date

05/01/91

Recommendation 2

As part of its planned oversight of RTC IRM, the RTC Oversight Board should oversee RTC plans to develop an IRM strategic plan.

Status

Action completed (closed).

The Oversight Board has established a formal process to review and offer suggestions to RTC development and implementation of a strategic IRM plan. As part of this process, the Board also ensures that its recommendations are properly implemented.

Status Change Date

09/30/91

Recommendation 3

As part of its planned oversight of RTC IRM, the RTC Oversight Board should oversee RTC plans to develop a systems architecture to help define the appropriate information technology to meet its information needs.

Status

Action completed (closed).

The Oversight Board has established a formal process to review and offer suggestions to RTC development and implementation of a systems architecture. As part of this process, the Board also ensures that its recommendations are properly implemented.

Status Change Date

09/30/91

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