

March 1992

# RESOLUTION TRUST CORPORATION

## Status of Real Estate Owned Management System



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United States  
General Accounting Office  
Washington, D.C. 20548

Information Management and  
Technology Division

B-247737

March 5, 1992

The Honorable Donald W. Riegle, Jr.  
Chairman, Committee on Banking,  
Housing, and Urban Affairs  
United States Senate

The Honorable Bruce Vento  
House of Representatives

This report documents one of the four briefings provided to your offices on February 4, 1992. The briefings responded to your requests that we provide information on (1) the Resolution Trust Corporation's (RTC) efforts to develop corporatewide automated information systems for loans, real estate, and asset managers and (2) contractor reporting.

As agreed with your offices, we are providing reports on our four briefings,<sup>1</sup> as well as a report that summarizes our overall findings and contains recommendations to the Chief Executive Officer, Resolution Trust Corporation.<sup>2</sup> This report documents our assessment of RTC's efforts to develop a corporatewide system to support the management and sale of real estate assets—Real Estate Owned Management System (REOMS). Details of our objective, scope, and methodology are in appendix I.

## Summary

RTC continues to operate without a corporatewide system that adequately supports its management and sale of real estate assets. Although RTC accepted REOMS from the system contractor in July 1991, significant modifications continue to be made as systems requirements change. In addition, REOMS' data integrity and performance problems hamper the management and sale of real estate assets. These problems resulted because RTC failed to apply sound information resources management principles while developing REOMS.

<sup>1</sup>Other reports include Resolution Trust Corporation: Status of Asset Manager System, (GAO/IMTEC-34BR, Mar. 5, 1992); Resolution Trust Corporation: Status of Loans and Other Assets Inventory System, (GAO/IMTEC-35BR, Mar. 5, 1992); and Resolution Trust Corporation: Review of Information Reporting Requirements for Asset Management Contractors, (GAO/IMTEC-37BR, Mar. 5, 1992).

<sup>2</sup>Resolution Trust Corporation: Corporate Strategy Needed To Improve Information Management, (GAO/IMTEC-92-38, Mar. 5, 1992).

## Background

As of December 31, 1991, RTC had about \$17 billion of real estate assets to manage and sell. Identifying a need for time-critical real estate data on a corporatewide basis, RTC awarded a contract for REOMS development in January 1991. The system was intended to provide descriptive, financial, and sales information about the assets (e.g., property description, book value, major tenants, and status of broker listings) necessary to manage and sell the assets.

According to RTC, contract costs for REOMS software development and enhancements were about \$14 million as of December 31, 1991. RTC expects to spend an additional \$13 million through 1992. These costs do not include hardware and telecommunications—costs that RTC did not have readily available.

The Resolution Trust Corporation Funding Act of 1991 required the Corporation to implement a corporatewide real estate system by September 30, 1991. Before system acceptance, we were concerned that REOMS may not meet RTC's mission needs for managing and selling real estate assets because sound information management principles were not being followed.<sup>3</sup> However, RTC accepted REOMS from the contractor for operational use in July 1991 without adequately applying these principles.

## REOMS Is Not Effectively Supporting RTC's Critical Mission Needs

System limitations and data integrity problems hamper RTC's efforts to fully utilize REOMS for managing and selling assets. These deficiencies can be attributed to unsound information resources management principles, including poor project management. As a result, RTC continues to change system requirements and correct data. Additionally, RTC did not adequately prioritize the need to correct data integrity problems, which were in part inherited from failed thrifts.

## System Limitations Exist

REOMS is limited in its ability to support asset management, financial management, and real estate asset sales. Consequently, other systems are being used to augment these management and sales efforts.

RTC managers are not receiving timely information reports to manage real estate assets because of REOMS reporting limitations. REOMS currently

<sup>3</sup>Resolution Trust Corporation: Update on Funding and Performance, (GAO/T-GGD-91-47, June 17, 1991); Resolution Trust Corporation: Update on Funding and Performance, (GAO/T-GGD-91-43, June 11, 1991); Resolution Trust Corporation: Performance Assessment To Date, (GAO/T-GGD-91-7, Feb. 20, 1991); and Resolution Trust Corporation: Automation Efforts Need Management Attention, (GAO/T-IMTEC-91-1, Oct. 16, 1990).

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cannot print reports at headquarters and field locations. Instead, REOMS reports are periodically printed and distributed by RTC's data center in Maryland. Out-of-cycle and nonstandard reports can also be obtained from the data center, but special computer programs must be written to acquire the needed reports. Additionally, RTC makes weekly REOMS data file transmissions available to operational levels such as field locations, which can then use the files to generate reports on their systems. According to a REOMS contractor study, obtaining file transmissions and locally developing reports can be time-consuming and complicated. This can result in information being unavailable or outdated when needed. RTC is now examining ways to better provide REOMS reports to its operating levels.

REOMS is not supporting financial management efforts as RTC's planned system of record for real estate assets. After accepting REOMS, RTC's Office of Corporate Finance determined that the system did not satisfy six key requirements needed to ensure that real estate data are timely, accurate, and complete for financial records and systems. Three of these requirements have been addressed. RTC is now addressing the system modifications needed to provide (1) a daily journal of monetary transactions, (2) a daily audit trail of changes to assets, and (3) final procedures and a system operations manual to use REOMS as the official accounting system for real estate assets.

REOMS data are not easily accessible to support real estate asset sales. When responding or updating customer inquiries or to update sales and other real estate data on REOMS, RTC staff are impeded by a slow, cumbersome process. To respond to an inquiry on a specific piece of property, staff must go through three REOMS screens just to get a property number, which then must be entered back into the system before proceeding through up to 12 more screens to obtain the needed information. This process is further hampered by slow system response times, which can result in over 1-minute delays to move from one screen to another. A similarly cumbersome process is used to update sales and other real estate data. Accordingly, RTC sales staff are using outdated data from their own systems and hard-copy reports to respond to customer inquiries. RTC is redesigning software and acquiring a new computer to improve data formats on sales screens by June 1992 and to speed up system response times.

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## REOMS Continues to Have Data Integrity Problems

RTC continues to have incomplete and inconsistent real estate records because headquarters and field offices failed to take the steps needed to

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ensure that REOMS has complete and accurate real estate data. The difficulties in obtaining accurate listings of real estate properties resulted in the director of RTC's Asset and Real Estate Management Division instructing field offices in January 1991 to take steps to ensure that REOMS contained complete and accurate data for their real estate assets. However, the methods and priorities for such steps were left up to the field offices; consequently, data integrity problems have continued.

We evaluated REOMS' data from October 1991 and found that the property records were incomplete and inconsistent. This evaluation was based on assessing the completeness of selected data elements within data element groupings (e.g., information on purchase contracts, other owners, or major tenants) of the 79,943 REOMS property records or a projectable sample of the records. Data elements in these groupings support RTC's asset management, financial management, and sales areas. Appendix I contains the scope and methodology of our evaluation and appendix II contains a listing of the data elements assessed. Following are examples of data element groups that had incomplete REOMS information on properties.

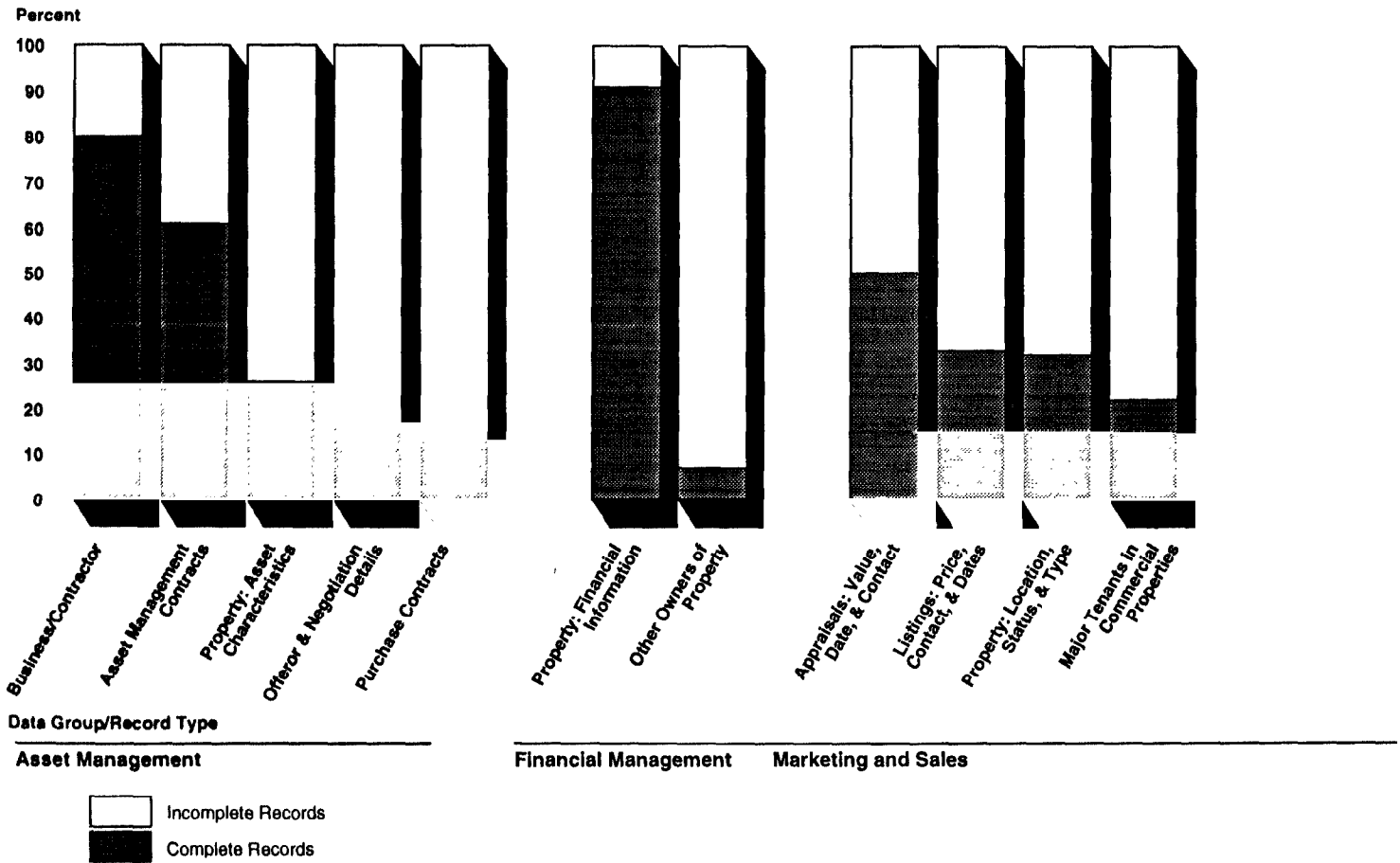
- In the asset management area, 87 percent of sold properties in our sample had incomplete information on purchase contracts.
- In the financial management area, 93 percent of the properties reported as partially owned by RTC in our sample had incomplete information on other owners.
- In the sales area, 67 percent of the unsold properties in our sample contained incomplete listing information.

Some individual data elements (e.g., market status and property type) within the data element groupings were usually complete on all property records because the records cannot be entered without them.<sup>4</sup> Because our evaluation focused on REOMS records, it does not reflect real estate that RTC may have inadvertently left off the system. Figure 1 shows the completeness of REOMS data element groupings for asset management, financial management, and sales as of October 5, 1991.

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<sup>4</sup>Although REOMS data elements may exist, they are not necessarily accurate. For example, a January 1992 study performed for RTC noted that REOMS users have little confidence in market status data because they experienced many instances in which a property's status was shown as available for sale, but later found to be a pending sale or sold.

**Figure 1: Completeness of REOMS Data by Data Groupings**



We analyzed our sample of REOMS records for completeness. Incomplete records were identified when one or more data elements in the record type were missing or when other data in REOMS indicated that the record should exist.

In addition, we found that data on property records were inconsistent. For example, we found 1,271 property records listing RTC as the sole owner, but other data elements indicated that other owners existed.

RTC management is cognizant of the problems associated with REOMS data integrity. Recent studies performed for RTC in November 1991 and January

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1992 noted that the poor quality of the REOMS data and the absence of RTC guidelines to correct the data are continuing concerns. Management officials said that the integrity of the data on the unsold property listing information has improved because they had a major effort in December 1991 to correct important data elements. However, our analysis of all unsold property records as of January 1992 showed that about 80 percent of the unsold properties did not have one or more key data elements (i.e., listing price, date the property was listed for sale, expiration date of the broker's contract, identification of the broker, name of a contact at the broker, and the contact's telephone number) compared to the 67 percent found in our October 1991 sample of REOMS records.

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### **REOMS Development Effort Has Been Poorly Managed**

One impediment to the successful development of REOMS was the lack of a strong RTC project management structure. In this regard, RTC management did not clearly specify the lines of authority and responsibility to make critical development decisions. For example, establishing corporatewide system requirements and controlling extensive system change requests were not the responsibility of any one RTC manager or group until late 1991 when a user group was formed to take action on these issues. A November 1991 internal memorandum from RTC's deputy directors for asset management and sales noted that there was no centralized process for ensuring that business requirements were fully and successfully being addressed by REOMS and other systems.

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### **Action Taken by RTC May Improve REOMS**

Recent action taken by RTC could address REOMS problems. This action included (1) transferring systems development responsibilities from the Office of Corporate Information to the Division of Institution Operations and Sales to place more emphasis on systems development and increase user involvement and (2) designating a REOMS project manager to be accountable for future system enhancements.

RTC also formed two REOMS user groups that could provide guidance needed to improve the system. The first user group was formed in November 1991 to identify, document, prioritize, and communicate how REOMS should support the business needs of the Asset Management and Sales Division. The second group was formed under the Office of Corporate Finance to define how corporatewide financial needs of RTC will be supported by REOMS. These groups are currently considering proposed contract modifications to correct the system limitations, reduce the system's response time, and improve the quality of RTC's data. The steps



being taken by RTC are responsive to the REOMS problems identified in our report. However, it is too early to determine how effective RTC will be in successfully implementing REOMS.

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## Agency Comments

We discussed the contents of this report with senior RTC officials, who generally agreed with our findings. They stated that the action being taken to deal with REOMS problems should adequately address those problems. We have incorporated their comments in the report as appropriate.

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Our work was conducted from June 1991 through February 1992, in accordance with generally accepted government auditing standards. We are providing copies of this report to other interested members of Congress, executive branch agencies, and the public. We will also make copies available to others upon request.

Should you have any questions about this report or require additional information, please contact me at (202) 336-6418. Major contributors to this report are listed in appendix III.



Howard G. Rhile  
Director, General Government  
Information Systems

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## Abbreviations

GAO	General Accounting Office
GGD	General Government Division
IMTEC	Information Management and Technology Division
REOMS	Real Estate Owned Management System
RTC	Resolution Trust Corporation



# Objective, Scope, and Methodology

The objective of our review was to assess the extent to which RTC adequately developed a corporatewide system to support the management and sale of RTC's real estate assets. Specifically, we assessed whether REOMS (1) was developed and implemented by RTC in accordance with sound information management principles, and (2) contained sufficiently complete and consistent data to support asset management and sales.

To assess the extent to which REOMS was being properly developed, we examined RTC's strategic information resources management plan, system development methodology, and related REOMS development documentation. We discussed these documents and RTC's development approach with RTC corporate officials and contractors responsible for the system's development and implementation.

To assess the completeness of the REOMS data, we obtained and analyzed a computer tape of REOMS data as of October 5, 1991.<sup>1</sup> We interviewed RTC managers and sales staff in RTC headquarters and field offices to identify the key asset management, financial management, and sales functions that REOMS data are expected to provide. We also reviewed various types of management reports on key functions to determine which data elements were used, and identified data elements within each record type that provided basic information for the property. The record types and associated important data elements selected for review are listed in appendix II.

We also performed an analysis of the REOMS population of data elements to determine the availability of each data element. Next, we randomly selected records for 1,000 properties and examined the records for each property to determine whether the data were complete and reasonable for each of the selected data elements.

Finally, we performed selective comparisons of the data within the REOMS records to determine if data within a property record were consistent (e.g., sold property should have data on the purchaser contract). Our sample of 1,000 properties has an expected sampling error of not greater than 3.1 percent at the 95-percent confidence level. However, the actual sampling error on any data grouping depends on the number of records the original 1,000 properties had in that grouping. Table I.1 lists the sampling errors for the data groupings when sample data were used for our evaluation.

<sup>1</sup>We analyzed the REOMS October 1991 tape because September 30, 1991, was when the Resolution Trust Corporation Funding Act of 1991 required RTC to have REOMS operational. In addition, during the timeframes of our review that was the latest data available to us.

**Appendix I**  
**Objective, Scope, and Methodology**

**Table I.1: Estimated Ranges at 95-Percent Confidence Levels for Reported Data**

	Complete Record Percentage	Estimated Range	
		Lower Limit	Upper Limit
<b>Asset Management:</b>			
Business/Contractor	80% <sup>a</sup>	—	—
Asset Management Contracts	61	55%	66%
Property: Asset Characteristics	26 <sup>b</sup>	—	—
Offeror and Negotiation Details	17	14	20
Purchase Contracts	13	9	17
<b>Financial Management:</b>			
Property: Financial Information	91 <sup>b</sup>	—	—
Other Owners of Property	7	3	15
<b>Marketing and Sales:</b>			
Appraisals: Value, Date, and Contact	50	47	53
Listings: Price, Contact, and Dates	33	29	37
Property: Location, Status, and Type	32 <sup>b</sup>	—	—
Major Tenants in Commercial Properties	24 <sup>b</sup>	—	—

<sup>a</sup> Not based on a random sample, but one group of contractors.

<sup>b</sup> Based on population results.

We conducted our review at RTC headquarters, Washington, D.C.; and at the RTC Central Regional Office in Kansas City, Missouri; Western Regional Office's Intermountain Consolidated Field Office in Denver, Colorado; and Eastern Regional Office's Northeast Consolidated Field Office in King of Prussia, Pennsylvania.

# Functional Areas, REOMS Record Types, and Data Elements Used in Our Analysis

## Asset Management

### Business/Contractors

- Name of firm/business
- Business entity tax identification number
- City where firm/business is located
- State where firm/business is located
- Telephone number of firm/business

### Asset Management Contracts - Basic Information

- Asset manager's tax identification number
- Date property assigned to asset manager contract
- Date asset management contract becomes effective
- Date asset management contract expires
- Asset management disposition agreement contract number
- Contact person for the asset management contract
- Contact person's telephone number for asset management contract

### Property - Asset Characteristics and Critical Dates

- Date property was acquired by RTC
- Date property became available for sale
- Market status (e.g., available for sale, pending sale, sold, etc.)
- Property Type (e.g., residential, commercial, etc.)
- Responsible RTC field office
- City where property is located
- State where property is located
- Value reflected on recognized appraisal
- Present book value of property
- Date on which real estate settlement occurs (for sold properties)

### Offer Negotiation and Details - Basic Information

- Name of offeror
- Street address of offeror
- City where offeror resides
- State where offeror resides
- Zip code where offeror resides
- Date negotiation of an offer was made
- Financing by RTC (i.e., yes or no)
- Gross dollar amount offered

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**Purchase Contract - Basic Information**

- Current status of contract
- Date of latest negotiation status
- Date on which contract was initiated
- Gross sale amount in the closing statement
- Total closing costs in the closing statement
- Total cost to the seller
- Contract expiration date

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**Financial  
Management**

**Property - Financial Related Information**

- Property type (e.g., residential, commercial, etc.)
- Book value of the property when acquired by RTC
- Present book value of property
- A code denoting type of RTC ownership
- Percentage of ownership interest inherited by RTC from the institution
- Code indicating RTC's role in property ownership (i.e., full, lead, or junior)
- Total closing cost in the closing statement
- Gross sale amount in the closing statement

**Other Owners**

- Name of participating owner of the property
- Percentage ownership of participating owner

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**Sales**

**Appraisals - Value, Date, and Contact**

- Tax identification number of the appraiser
- Code denoting appraisal of record or current appraisal (i.e., yes or no)
- Date on which property was valued
- Value of property in present condition based on appraiser's estimate
- Code denoting current physical condition of property
- Name of contact person associated with appraiser
- Telephone number of contact person associated with appraiser

**Property - Descriptors, Location, Status, and Type**

- Code denoting market status of property at a point in time (e.g., available for sale, pending sale, sold, etc.)
- Code denoting class of property (e.g., residential, commercial, etc.)
- Code denoting style or design of property (e.g., colonial, townhouse, etc.)
- RTC person responsible for property
- Telephone number of RTC person responsible for property
- Street number of property address
- Street name where property is located
- City where property is located
- State where property is located
- Zip code where property is located
- Code indicating whether property was or is eligible for the Affordable Housing Program
- Code indicating environmental hazard for commercial property

**Listings - Price, Contact, and Dates**

- Tax identification number for a listing broker
- Name of the contact person associated with the listing broker
- Telephone number of the contact person associated with the listing broker
- Date of the initial listing for this property
- Date on which listing expires
- Amount at which property is currently listed

**Major Tenant in Commercial Properties**

- Name of major tenant of property
- Expiration date associated with major tenant's lease
- Square feet occupied by major tenant



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# Major Contributors to This Report

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# Related GAO Products

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

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

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

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

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

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

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

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

Resolution Trust Corporation: Performance Assessment To Date (GAO/T-GGD-91-7, Feb. 20, 1991).

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

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

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