

GAO

Report to the President and Chief  
Executive Officer, Resolution Trust  
Corporation

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October 1993

RESOLUTION TRUST  
CORPORATION

Status of Management  
Efforts to Control  
Costs



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

**General Government Division**

B-254246

October 28, 1993

The Honorable Roger C. Altman  
President and Chief Executive Officer  
Resolution Trust Corporation

Dear Mr. Altman:

The Resolution Trust Corporation (RTC), as receiver for hundreds of failed thrifts, annually spends billions of dollars to liquidate real estate, mortgages, securities, and other assets. These expenses are incurred directly by RTC or by thousands of RTC's contractors for such things as salaries, property taxes, asset management fees, and sales commissions. From its inception in August 1989 through December 1992, RTC spent \$7 billion in receivership liquidation expenses with over half, or \$3.7 billion, incurred in calendar year 1992. Expenses are expected to remain high as RTC attempts to dispose of the less marketable assets that remain in its inventory. Because of our concern about rising expenses as the number and marketability of assets decline, we reviewed RTC's efforts to monitor and control its costs.

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## Results in Brief

Although RTC is spending billions of dollars and expenses are increasing, the agency has not adequately focused on controlling costs. Prior General Accounting Office (GAO) and RTC Inspector General (IG) reports show that RTC has incurred millions of dollars in unnecessary or questionable costs. A stronger budget process serving as a fiscal control tool, greater managerial emphasis on cost control, and more useful expense accounting information could have helped to identify these excess costs or other opportunities to reduce expenses. RTC officials said that efforts to improve operations and control costs have been hampered by numerous factors. These factors include the formidable requirement of simultaneously setting up agency operations while dealing with hundreds of failed thrifts, uncertainties in workloads and funding, and the emphasis by past leadership on rapid sales of assets.

Nevertheless, RTC has worked on and continues to refine key cost control processes. In 1993, RTC improved the budget process by developing new expense/revenue and performance measurement reports to better link operational goals and objectives to budgeted expenses. RTC continues to address inaccuracies, inconsistencies, and generalized expense accounting data that have hampered agency cost containment efforts. Further, a newly appointed chief financial officer (CFO) has been given responsibility

to oversee all financial management activities. These actions are steps in the right direction. Their success, however, will depend upon the commitment of top management to use these processes to probe for opportunities to reduce costs.

## Objective, Scope, and Methodology

Our objective was to assess the adequacy of RTC's efforts to control and minimize liquidation expenses. We focused on the agency's receivership operations because failed thrifts under RTC conservatorship continue to operate as financial institutions. Consequently, conservatorship cost information does not differentiate between RTC's asset liquidation expenses and the thrifts' business operations costs.

We performed our work at both RTC headquarters and field locations. Our headquarters work was done at the Office of Budget and Planning (OBP), which manages RTC's budgetary process, and the Office of Asset Management and Sales, which has operational responsibility for most of RTC's receivership liquidation expenses. We reviewed budgets and management reports and obtained receivership expense accounting information from the Office of Field Accounting and Asset Operations. We interviewed senior RTC officials at five field offices to obtain their views on areas where costs could be minimized. In addition, we discussed and obtained general information from Federal Deposit Insurance Corporation (FDIC) officials on their experiences with bank liquidation expenses. We also reviewed GAO and RTC IG reports and testimony.

In analyzing RTC's expenses, we summarized RTC receivership expenses from RTC's inception in August 1989 through December 1992 (see app. II). We excluded interest expense from our analysis, because most receiverships' interest costs are paid to RTC for loaned working capital. We compared annual costs with average assets managed to show the trend and relationship of RTC's receivership expenses to the assets being managed and sold. The average assets managed was obtained by totaling assets under RTC receivership for every month in the year and calculating the annual average. We did not, however, independently validate RTC asset information and expenses, which were not audited. Extensive posting of receivership expenses to nonspecific accounts limited our ability to do a detailed analysis of receivership expense data. Further, the lack of cost standards and the difficulty of developing standards from RTC's data limited our efforts to ascertain to what degree increases in receivership expenses are due to external factors beyond RTC's control.

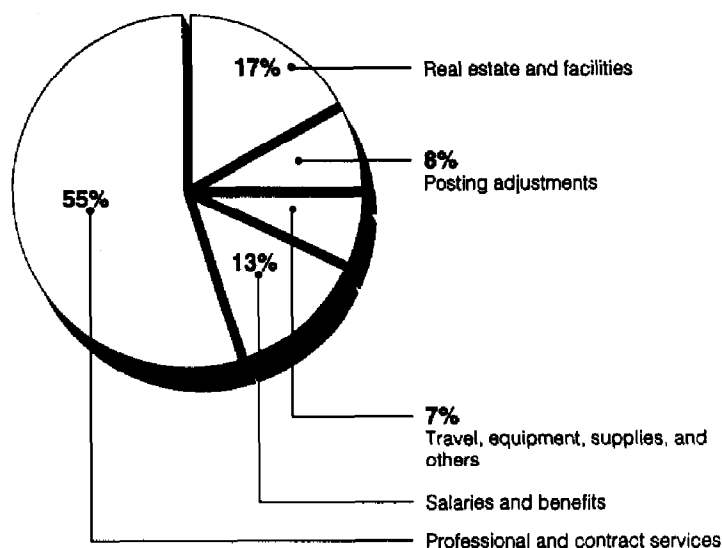
We performed our work between February and July 1993 in accordance with generally accepted government auditing standards.

## Overview of RTC's Expenses

From RTC's inception on August 9, 1989, through December 31, 1992, receiverships under RTC's control have incurred expenses, excluding interest, of \$7 billion. Receivership expenses, which are primarily selling and administrative operating costs, are included in RTC's annual budget, which is approved by the Thrift Depositor Protection Oversight Board. In its financial statements, RTC aggregates revenue and expense information for all receiverships and reports the result as net estimated recoveries from receiverships. As a part of our financial statement audit, we sampled and tested receivership receipt and disbursement transactions to ensure that they were valid and accurately reported receivership financial records.

Receivership expenses are costs incurred directly by RTC or amounts paid to outside contractors that provide a broad range of services on behalf of the receiverships. In 1992, receiverships incurred \$3.7 billion of expenses, at least \$2 billion of which was for professional or contractual services. These expenses included legal expenses, asset management fees, real estate commissions, and the cost of various other contractual and professional services. About \$640 million, or 17 percent, was spent for RTC-held properties for such things as property taxes, utilities, and operating expenses. Salaries and benefits for RTC employees added another \$471 million, or 13 percent, to the agency's expenses. RTC also reported a posting timing difference adjustment of \$289 million, or 8 percent, because receiverships are on a cash accounting basis while RTC's corporate finances are on an accrual basis. Figure 1 shows RTC's expenses by major expense category for calendar year 1992.

**Figure 1: Percentage Distribution of RTC's Expenses for Calendar Year 1992, by Major Expense Category**

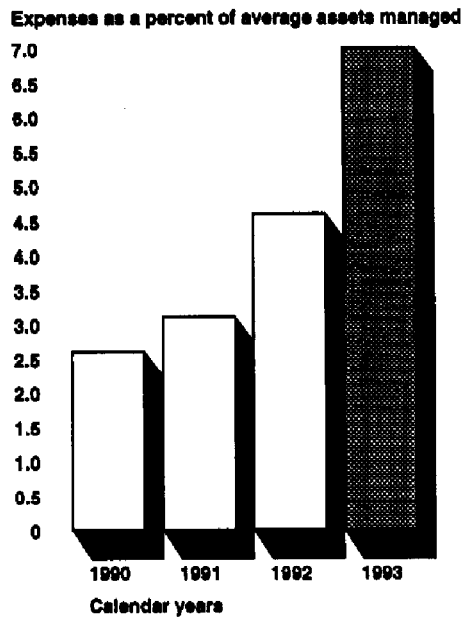


Source: GAO's Analysis of RTC's Financial Management System

## RTC's Expenses Are Increasing

RTC's 1992 receivership liquidation expenses of \$3.7 billion represent 53 percent of all expenses incurred by the agency since its inception. A comparison of the total annual expenses to the average amount of assets managed shows that it is costing more each year to manage and sell thrift assets. In 1990, RTC's receiverships, on average, held assets with a book value of \$34.7 billion and incurred expenses of \$0.9 billion. In 1991, the book value of receivership assets grew to an average of \$77.7 billion, and expenses were \$2.4 billion. In 1992, although the book value of receivership average assets of \$80.1 billion stayed close to 1991 levels, expenses increased to \$3.7 billion. RTC projects the book value of average assets to decline to \$47.1 billion in 1993 and has budgeted costs of \$3.3 billion. If these estimates prove reliable, in 1993 the agency will incur noninterest expenses of about 7 percent of the assets' book value. Figure 2 shows the annual increase in expenses as a percentage of average assets managed.

**Figure 2: Expenses as a Percentage of the Book Value of Average Assets Managed for 1990-1993**



Source: GAO's analysis of RTC data. The 1990-1992 data is from RTC Review and RTC's Financial Management System. 1993 data is an RTC-OBP estimate.

On the basis of FDIC's experiences, expenses increase as the more difficult to sell assets are finally liquidated in the last years of a receivership. According to FDIC officials, the more marketable assets of failed banks are usually sold first. For these assets, less holding costs are incurred. However, assets having legal problems, requiring a longer holding period, or other factors affecting their marketability, take longer to sell and incur higher liquidation costs. FDIC's expense patterns will probably hold true for RTC's receiverships. Therefore, liquidation expenses should consume an even greater portion of receiverships' values in the future as RTC sells its less marketable assets, such as land, nonperforming commercial loans, and low-grade securities.

### Concerns About Excessive Costs

During RTC's 4 years of operation, we and RTC's IG have identified millions of dollars of unnecessary or excessive costs. For example, separate GAO and IG reviews of contractor operations at Home Federal Savings and Loan found over \$8 million in excessive costs for photocopying services and for

other work not specified in the task order.<sup>1</sup> Another review found that RTC was contractually liable for at least \$4.7 million in unearned management and disposition fees to Standard Asset Management and Disposition Agreement (SAMDA) contractors. RTC paid more than \$2.8 million in fees for SAMDA contractors to service performing loans while RTC was also paying loan servicing contractors to process payments received from borrowers for these same loans.<sup>2</sup> In another review, we found that RTC paid at least \$441,000 in management fees to SAMDA contractors for loans the contractors could neither manage nor sell because RTC had not transferred the necessary asset files.<sup>3</sup>

In responding to these and other concerns, in March 1993 RTC announced management reforms in the areas of planning, agency operations, financial management and control, and public policy. The goals included improving agency management practices, increasing the efficiency of operations, strengthening financial management and control, and maximizing net returns on asset sales. The specific details on the reforms are being developed, and some of the management reforms will require time to be implemented. One reform, however, was to appoint a CFO, which RTC did in June 1993. Among other things, the duties of the CFO are to include overseeing all financial management activities, managing agency financial systems, and monitoring the financial execution of the budget and operating plan. If properly implemented, RTC's management reforms should have a positive effect on costs, although they do not contain the explicit goal of controlling the agency's operating expenses.

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## Several Factors Hampered Control of Costs

Cost control efforts at RTC have suffered from limited managerial attention. Faced with the pressing problems of simultaneously disposing of hundreds of failed thrifts while also setting up agency operations, and with top management emphasizing the rapid disposal of assets, effective cost control processes were slow to develop at RTC. RTC's budget process did not serve as an effective means of controlling costs, and the lack of specific accounting information on expenses also hampered cost control efforts. In responding to criticisms in past audits and efforts by the current leadership to improve internal controls, RTC has recently initiated several improvements in its budget and accounting operations.

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<sup>1</sup>RTC's HomeFed Contract With Price Waterhouse (RTC Office of Inspector General, Testimony 93-1, Feb. 19, 1993) and Arthur Andersen HomeFed Contract (GAO/GGD-93-40R, May 7, 1993).

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

<sup>3</sup>Resolution Trust Corporation: Timelier Action Needed to Locate Missing Asset Files (GAO/GGD-93-76, Apr. 28, 1993).



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Under standard management practices, a budgetary process is used by agencies to allocate limited financial resources, control expenditures, and foster accountability and efficiency. Through budgets, management sets a tone of fiscal restraint by requiring justification for expenditure authority, monitoring costs to the budgeted amounts, and evaluating managerial performance. However, several factors have contributed to RTC's budget process not meeting its full potential as a cost control mechanism.

Controlling costs has been difficult due to diffused responsibility within RTC. While RTC field office and program managers are primarily responsible for controlling costs, the budget process, managed by OBP, is the agency's central system for monitoring costs. However, officials described the budget process as more of a scorekeeping function that has monitored actual costs to the budget, rather than a process that has controlled expenses and promoted accountability. Further, RTC officials stated that maintaining accountability and promoting efficiency in the budget process have been hampered by frequent agency reorganizations, funding uncertainties, and the changing environment within which RTC operates. This has contributed to frequent budget changes and reallocations. For example, RTC's 1992 budget was revised at least three times, as late as December 1992, due to changing conditions.

In June 1993, RTC's IG reported that the budget process had not proven to be an effective method for ensuring the efficient use of resources. In reviewing RTC's 1991 budget process, the IG found that OBP's response to shortages in budgeted amounts was either to reallocate funds or grant waivers to exceed the budget with little justification. Second, the IG found that managerial performance was not linked to specific goals or the costs associated with achieving them. Third, the IG found little evidence of any efforts by OBP to analyze variances of actual expenditures from original budget estimates.

In August 1993, RTC officials cited specific actions that they had taken to address the IG's concerns. These actions included (1) preparing a draft of revised delegations of authority for justifying budget reallocations, (2) developing interim policies and procedures to assure adequate managerial review of office expense variances, and (3) designing new expense/revenue and performance measurement reports that should better link operational goals and objectives to actual and budgeted expenses. We noted that in 1993 more detailed reports analyzing expenses are being prepared, which should enable RTC to better assess the efficiency of its operations. Officials also stated that as a result of the agency's

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March 1993 management reforms there is now more emphasis on improving internal operations, increasing net recoveries on asset sales, and, in turn, on controlling spending.

Previously, we reported that the lack of data, data inaccuracies, and the lack of consistent corporatewide data have hampered RTC's efforts to assess the efficiency and effectiveness of operations.<sup>4</sup> In a similar manner, limitations in accounting information have also hampered cost control efforts. During our review, we noted that many of RTC's expenses were posted to "other" accounts. For example, in 1992 RTC reported payments of \$2 billion for professional or contract services. About \$862 million, or 43 percent of all reported costs for professional and contract services were posted to two very general accounts—"other contractual services" and "other professional services." Posting such a large portion of receivership expenses to such general accounts has hampered efforts to develop meaningful cost comparisons, evaluate performance, and promote efficiency in operations. We could not make meaningful comparisons because the posting of many expenses to nonspecific accounts made it doubtful that the costs reported for specific expense categories actually included all the costs incurred. These limitations have prevented us as well as RTC from identifying what specific costs can be reduced and to what extent. Appendix II details RTC's annual receivership liquidation costs by expense category since 1989.

RTC officials pointed out that the cost information situation is improving. For the first 6 months of 1993, expenses posted to "other" accounts were reduced from the 42 percent that we found in 1992 to 17 percent. Further, RTC officials stated that this improvement was because of RTC's new expanded chart of accounts, which allows for more detailed information on the type of operating expenses being incurred, the centralizing of accounting operations at four financial service centers, and the development of standard accounting policies and procedures.

Improving cost information and performance measures should allow RTC to better control expenses. By focusing on expenses and relating these costs to operations, RTC should be able to identify and better control excessive costs. Discussions with senior RTC officials elicited suggestions on how RTC could minimize costs. One field office vice president suggested that sharing information on the average costs being incurred RTC-wide for

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<sup>4</sup>Resolution Trust Corporation: Funding, Organization, and Performance (GAO/T-GGD-93-13, Mar. 18, 1993).

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common services, such as legal services and due diligence<sup>5</sup> reviews, would help managers control expenses. If they were armed with this information, managers would be better positioned to judge the reasonableness of costs and focus on costs that seem excessive. Other examples shared by officials included operational improvements, such as not requesting appraisals for properties that could not be actively marketed and not performing repetitive due diligence reviews of the same loans as unsold loans are shifted to different sales initiatives.

In discussions about our draft report, RTC officials offered perspectives on their operating environment that had affected efforts to develop effective cost control systems. They pointed to the difficulty of simultaneously setting up agency operations and dealing with hundreds of failed thrifts. They also noted that RTC has continually faced uncertainties in the number of thrift failures as well as the timing and level of funding available to handle the workload. And they also acknowledged that the prior administration's focus was on rapid disposal of assets with less attention devoted to monitoring net recoveries of assets. We noted that most RTC executive performance measurement reports focused on the progress in meeting sales goals. Further, information on expenses was limited and presented in broad terms. With the recent establishment of the management reform agenda by the current administration, RTC officials believe more attention will be directed toward strengthening the agency's operations.

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## Conclusions

Annual expenses of \$3.7 billion and examples of unnecessary, varying, or excessive costs demonstrate the importance of having RTC top management focus its attention on controlling expenses and improving the efficiency of operations. RTC has made efforts to strengthen the budget process and improve accounting data which should enhance cost control efforts. RTC's management reform program, if properly implemented, should also have a positive effect on costs. By establishing the position of the CFO, RTC has designated an entity responsible for improving all aspects of financial management. However, the success of the cost control efforts will depend on the attention and emphasis provided by top management.

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## Recommendations

We recommend that the President and Chief Executive Officer (CEO) of RTC emphasize controlling and minimizing agency operating expenses as a part

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<sup>5</sup>Due diligence is the process of evaluating information on the assets to fully assess their value.

of RTC's management reform agenda. As a part of this process, the CEO should

- support the CFO as the responsible official for controlling agency costs
- identify specific areas in which RTC can minimize expenses,
- continue efforts to strengthen the budget process as a tool for fiscal control, and
- improve the usefulness of expense accounting information as a managerial tool.

## Agency Comments

RTC generally agreed with our findings and supported our recommendations. RTC stated that the recent realignment of corporate budget and accounting responsibilities to the office of the CFO is directed toward improving financial accountability. Controlling operating expenses and identifying areas to reduce costs are priorities for RTC's management reform agenda. A copy of RTC's comments is included in appendix I.

We are sending copies of this report to interested congressional members and Committees and the Chairman of the Thrift Depositor Protection Oversight Board. We will also provide copies to others upon request.

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

Sincerely yours,



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

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# Comments From the Resolution Trust Corporation



RESOLUTION TRUST CORPORATION

Resolving The Crisis  
Restoring The Confidence

Chief Financial Officer

October 4, 1993

Gaston L. Gianni, Jr.  
Associate Director, Government  
Business Operations Issues  
1717 H Street N.W. Room 4300  
Washington, D.C. 20434

Dear Mr. Gianni:

Mr. Altman has requested that I respond to your September 15, 1993, revised draft report on the "Status of Management Efforts to Control Costs." The Corporation finds the report's findings to be substantially accurate and fully supports the recommendations. In addition, we are especially pleased to note that the report recognizes current initiatives undertaken in the budget and accounting areas to improve cost controls within the Corporation.

The recent realignment of corporate budget and accounting responsibilities to the office of the Chief Financial Officer is directed toward improving financial accountability throughout the Corporation. The agency has progressed from its "formative period", with considerable emphasis on asset sales, and is now in a more stable environment. Controlling operating expenses and identifying areas for operating managers to reduce costs are priorities for RTC's management reform agenda. Significant efforts now underway will further strengthen the budget process and expense accounting as effective management tools. We will complete the development of these initiatives and will ensure they are put into operation as rapidly as possible.

We appreciate the opportunity to have worked with your staff during this review. If you have any questions concerning our comments or would like to discuss them further, please contact me directly or Stan Pawlowski on 416-7343.

Sincerely,

A handwritten signature in cursive script, appearing to read "Donna H. Cunningham".

Donna H. Cunningham

801 17th Street, NW, Washington, DC 20434-0001

Tel. (202) 416-7221 Fax (202) 416-7226

# RTC's Receivership Liquidation Expenses, August 1989 to December 31, 1992

Dollars in millions

Category of expense	1990 <sup>a</sup>	1991	1992	8/89 to 12/31/92
Salaries and benefits	\$245.9	\$431.4	\$470.9	\$1,148.2
Professional and contract services				
Legal services	\$53.8	\$302.7	\$232.7	\$589.2
Accounting and auditing fees	8.0	68.5	84.8	161.3
Systems analysis fees	3.9	40.3	78.0	122.2
Due diligence, <sup>b</sup> asset servicing, <sup>b</sup> and technical services	0.5	2.5	31.1	34.1
Other professional services	46.0	231.4	473.8	751.2
Temporary services <sup>b</sup>	0.0	0.0	15.4	15.4
Real estate commissions	20.1	77.5	115.2	212.8
Collection and repossession fees	17.4	48.5	51.5	117.4
Appraisal fees	15.1	36.9	33.2	85.2
Management fees - non-SAMDA	38.9	104.1	133.1	276.1
Auction fees <sup>b</sup>	0.0	0.0	2.7	2.7
Leasing commissions, court and bank charges, and brokerage and credit report fees	2.3	20.6	23.3	46.2
Other commissions and fees <sup>b</sup>	0.0	0.0	59.1	59.1
Advertising expenses	4.3	17.4	25.5	47.2
SAMDA fees and expenses	0.1	93.2	285.7	379.0
Other contractual services	149.9	400.1	387.9	937.9
<b>Total professional and contract services</b>	<b>\$360.3</b>	<b>\$1,443.7</b>	<b>\$2,033.0</b>	<b>\$3,837.0</b>
Travel and transportation	\$38.7	\$52.5	\$47.9	\$139.1
Real estate and facilities				
Real estate property taxes	\$59.6	\$223.5	\$218.2	\$501.3
Maintenance and repairs	25.4	65.2	78.1	168.7
Cleaning contracts, grounds maintenance, security services, and environmental assessments	4.1	17.7	21.7	43.5
Improvements	6.7	25.4	29.1	61.2
Utilities	17.1	56.6	63.1	136.8
Other facilities operating expenses	71.2	80.0	142.5	293.7
Leased space expenses	29.0	80.5	83.0	192.5
Condominium, homeowners, and architectural and relocation fees	0.8	2.9	4.6	8.3
<b>Total real estate and facilities</b>	<b>\$214.0</b>	<b>\$551.8</b>	<b>\$640.3</b>	<b>\$1,406.1</b>
Equipment expenses				

(continued)

**Appendix II  
RTC's Receivership Liquidation Expenses,  
August 1989 to December 31, 1992**

Dollars in millions

<b>Category of expense</b>	<b>1990<sup>a</sup></b>	<b>1991</b>	<b>1992</b>	<b>8/89 to 12/31/92</b>
Furniture, fixtures and equipment — purchases, rental, maintenance and repairs; and transportation equipment	\$12.7	\$32.2	\$26.9	\$71.8
Computer equipment, teleprocessing — purchase, leasing, timesharing, and maintenance and operations	54.5	94.9	75.6	225.0
<b>Total equipment expenses</b>	<b>\$67.2</b>	<b>\$127.1</b>	<b>\$102.5</b>	<b>\$296.8</b>
Supplies and materials	\$12.5	\$26.7	\$22.1	\$61.3
<b>Other expenses</b>				
Insurance	\$14.5	\$49.3	\$35.5	\$99.3
Communications and postage	15.5	42.5	35.4	93.4
Litigation settlements <sup>c</sup>	0.0	0.0	5.0	5.0
Business taxes; membership, conference, and educational fees; and petty cash	1.8	3.3	10.8	15.9
Other expenses	3.9	4.0	1.1	9.0
<b>Total other expenses</b>	<b>\$35.7</b>	<b>\$99.1</b>	<b>\$87.8</b>	<b>\$222.6</b>
Fourth quarter 1989 expenses <sup>a</sup>	\$32.1			\$32.1
Posting timing difference <sup>e</sup>	\$(42.7)	\$(247.7)	\$283.4	\$(7.0)
Journal entry general offset adjustment <sup>d</sup>	\$(81.6)	\$(100.0)	\$5.6	(176.0)
<b>Total receivership liquidation expenses<sup>a</sup></b>	<b>\$882.1</b>	<b>\$2,384.6</b>	<b>\$3,693.6</b>	<b>\$6,960.3</b>

Note: Columns and rows may not total due to rounding differences.

<sup>a</sup>Fourth quarter 1989 expenses of \$32.1 million were included in the 1990 total for presentation purposes because RTC had minimal expenses in 1989.

<sup>b</sup>These expense accounts were not used until 1992.

<sup>c</sup>Posting timing differences adjustments represent the liquidation expenses incurred by RTC but not yet charged to receiverships. This resulted because RTC uses the accrual basis of accounting, and the receiverships are on a cash basis of accounting.

<sup>d</sup>The journal entry general offset represents adjustments to record expenses that were not posted to existing general ledger accounts.

<sup>e</sup>This expense information is unaudited. We grouped RTC receivership expense information by similar accounts for presentation. To allocate RTC overhead expenses charged to receiverships, we applied the corporate recovery rates of .9592, .9885, and .9800 for 1990, 1991, and 1992, respectively.

Source: GAO analysis of RTC data. The 1989 to 1991 receivership expense accounting data are from RTC's Financial Information System. The 1992 data are from RTC's Financial Management System. These expenses are unaudited, and, accordingly, we do not express an opinion or any other form of assurance on them.



# Major Contributors to This Report

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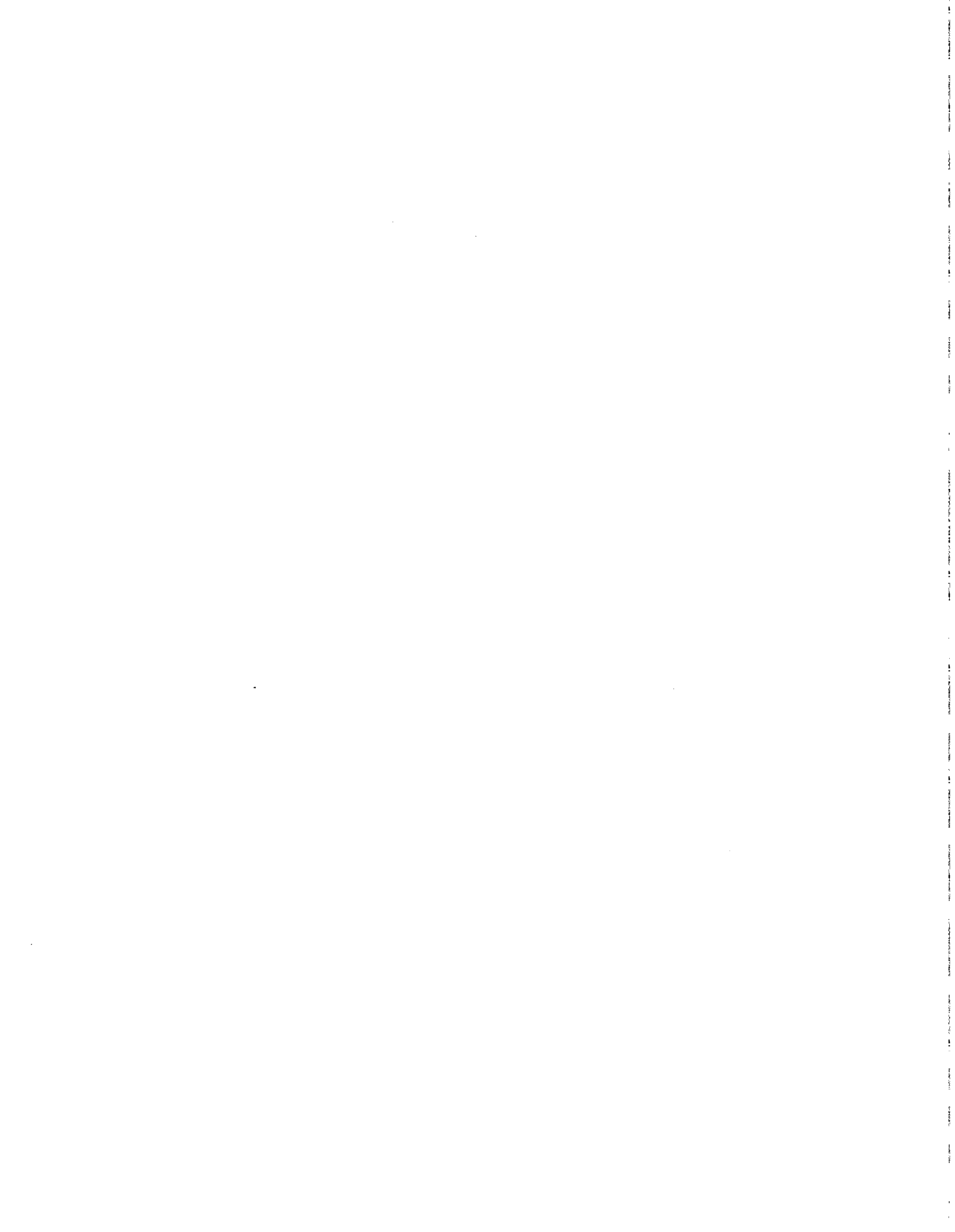
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