DIVISION OF SUPERVISION CASE MANAGER PROGRAM –
Views of Those Who Are Implementing It

Office of Inspector General
Office of Congressional Relations and Evaluations
March 31, 1999
Evaluation Report No. 99-003

CONTENTS

LETTER FROM THE DIRECTOR

Date: March 31, 1999

To: James L. Sexton
Director, Division of Supervision

In 1994, the Division of Supervision (DOS) began looking at different ways to keep pace with the changes in the banking industry. The Case Manager Program was one of the initiatives undertaken by DOS to improve the Corporation's ability to assess and respond to risk. The primary goal of the Case Manager Program was to significantly enhance risk assessment and supervision activities by assigning responsibility and accountability for a caseload of institutions or companies to one individual, regardless of charter and location, and by encouraging a more proactive, but non-intrusive, coordinated supervisory approach. DOS implemented the program in April 1997.

We initiated this review to learn how the Case Manager Program was working. Our ultimate objective was to identify issues that may warrant further review or management attention. In our view, the most direct way to learn about the program was to interview those primarily responsible for implementing the program - regional office management and case managers. We met with regional management and selected case managers in all of DOS's regional offices. Specifically, we met with 53 case managers responsible for 46% of the large insured depository institutions (LIDIs).

Of the case managers we interviewed, 85% viewed the Case Manager Program favorably. Officials interviewed believed the case manager concept made sense in light of the consolidation ongoing in the industry. In sum, case managers believed that the program enhances the Corporation's ability to assess risk and proactively direct supervisory activity, particularly for large insured depository institutions. For smaller institutions, officials said the benefits of the case manager approach were less evident.

Despite the overall positive comments, 47% of those case managers we interviewed said it was difficult to effectively manage their caseloads because of competing responsibilities. Workload was a concern. A manageable workload was viewed as a critical factor to the success of the program when the concept was envisioned. In particular, case managers interviewed raised concerns about two areas of their responsibility - applications and preparation of quarterly LIDI reviews. Some case managers said processing applications took a considerable amount of their time and limited their ability to focus on risk and supervisory issues. Some case managers also questioned whether the LIDI reviews, as presently structured, resulted in a useful product for management.

We recognized that:

- the Case Manager Program was relatively new and still evolving.
- regional management and Washington Office officials were aware of many of the issues raised by the case managers.
- DOS had several initiatives underway that may address many of the issues raised by the case managers we interviewed.

Nonetheless, given the reliance the Corporation places upon case managers to assess risk and direct supervisory activity, we believed it was important that DOS pause to consider the issues raised by the case managers. The intent of this report was to share the views we obtained from case managers and regional management.

Further, based on those views, we made three recommendations to DOS. On March 29, 1999, you responded to our recommendations. The response provided the requisite elements of a management decision for each of the recommendations. Your written response is included in its entirety in Appendix I. Appendix II presents our assessment of your responses to the recommendations and shows that we have a management decision for each of the recommendations.

Stephen M. Beard
Director, Office of Congressional Relations and Evaluations
Office of Inspector General

Overview of Case Manager Program

> The business of banking is becoming increasingly complex, and the competitive landscape is undergoing rapid change. The nature and scope of risk within the banking and financial services industry is changing as a result.
>
> -Former FDIC Chairman

In 1994, the issue of banking structure demanded FDIC's attention. Specifically, it faced the task of adapting to the new interstate-banking environment created by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which Congress enacted earlier that year. FDIC realized the traditional approach to banking supervision needed enhancement so that it would be able to respond to new and emerging risks more quickly and more effectively. Accordingly, in 1994, DOS began evaluating its business processes and created the Process Redesign Committee (committee) which included personnel from Washington, the regions, and field offices.

The committee focused on the need to restructure how work was performed in the regional and Washington offices. Specifically, the committee undertook a "grass roots" review of risk assessment and supervisory activity processes in DOS. As the committee began looking at DOS's work processes, it became apparent that not only was there a lack of uniformity from region to region, but at both the regional and Washington Office levels, work processes were often fragmented.

DOS traditionally handled supervision matters on a geographic basis. In addition, in many instances, DOS divided supervision work related to one insured institution according to function, among three or more review examiners or analysts. For example, for one bank, a review examiner would handle examination report processing and corrective programs, another would conduct offsite financial analysis, and another would process applications. Moreover, most of DOS's substantive offsite analysis was conducted by banking analysts not directly involved in the processing of other supervisory matters, such as planning supervisory strategies or processing examination reports. DOS concluded that this fragmented approach tended to limit the desired proactive and coordinated approach for planning regulatory strategy.

Under the case manager concept, DOS would not assess risk on the individual institution. Rather, DOS would assess risk for the institution in the context of all entities related to the institution without regard to institution class or region, and a single individual would assess that risk.

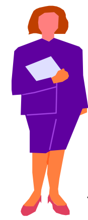
The committee envisioned that the case manager approach would establish a more comprehensive, proactive, and ongoing assessment of the risk that an institution posed to the insurance fund and the risk to institutions resulting from holding company or chain relationships. It was also envisioned that case managers would take a more active role in the oversight of state member banks, national banks, and thrifts by establishing strong coordination efforts and communication channels with the respective federal and state regulators.

In essence, under the case manager concept, the existing responsibilities of safety and soundness and application review examiner, and senior banking analyst positions were consolidated into the case manager position. Specifically, FDIC regional office responsibilities were realigned so that one individual in a designated FDIC regional office supervised or monitored all the institutions that constituted a group of related institutions, regardless of charter or location. The new approach was intended to make the monitoring of banks and their affiliates more effective and efficient, and provide institutions and other regulators with a single point of contact at FDIC.

DOS implemented the Case Manager Program in April 1997. When the program was envisioned, the former FDIC Chairman stressed that this initiative, along with others, was not intended to abandon or to alter dramatically FDIC's examination philosophy, policies, or procedures. Rather, the initiatives were designed to strengthen and build on existing procedures.

Evolution of the Case Manager

1. Review Examiner

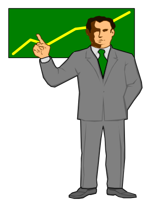


Safety and Soundness Duties:

- Review Report of Examination
- Prepare and review correspondence
- Draft and coordinate enforcement actions
- Coordinate resolution of problem banks

Case Manager

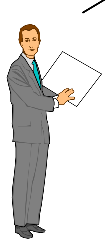
2. Senior Banking Analyst



Offsite Analysis Duties:

- Review CAEL differences
- Analyze Growth Monitoring System exceptions
- Prepare quarterly financial analysis
- Assign risk-based premium categories

3. Application Specialist



Applications Duties:

- Process 26 application types
- Review applications
- Obtain additional documentation
- Prepare application decisions

Objectives, Scope, and Methodology

Given the significant role of the case manager in DOS's supervisory process, the OIG initiated this review. The objectives of our review were to learn how regional offices implemented the Case Manager Program and gauge regional management and case managers' views on how well the program was achieving its objectives. In essence, we sought officials' opinions about how this program was working. Our ultimate objective was to identify issues that may warrant further review or management attention to ensure the success of the program.

To accomplish our objectives, we reviewed background material, relevant policies and procedures, and interviewed DOS personnel in the Washington Office. Specifically, we reviewed the *Case Managers Procedures Manual* and documentation from Process Redesign Committee files. We also met with Washington Office officials in DOS's Offices of Administration, Policy and Program Development, and Operations to discuss the program development and goals.

To ensure we obtained a national perspective of the program, we interviewed case managers in all of DOS's regional offices – Atlanta, Boston, Chicago, Dallas, Kansas City, Memphis, New York, and San Francisco. We used the *Case Load Summary* report from the Case Manager Administration System to judgmentally select case managers from each region.

The *Case Load Summary* lists the case managers' name and summary data about the case managers' workload by region. The report identifies the:

- Total number of cases.
- Number of cases with assets greater than $3 billion (LIDIs).
- Total number of institutions.
- Number of institutions with assets greater than $1 billion.
- Total assets for the cases.
- Number of institutions with marginal ratings.

We were particularly interested in talking with case managers that were responsible for LIDIs. Therefore, we judgmentally selected case managers responsible for those types of institutions. Because we primarily met with case managers responsible for large institutions, we recognized that we may not have captured the views of all case managers. We also met with Regional Directors, Deputy Regional Directors, and Assistant Regional Directors. Appendix III identifies the number of case managers we met with in each of the regions and selected summary information about their caseloads.

In our interviews with case managers, we discussed the following:

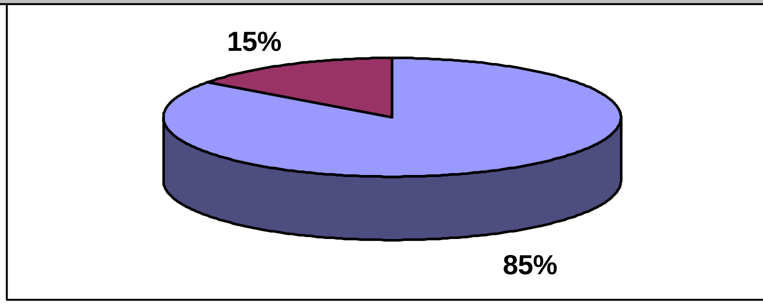
- The case manager's overall opinion of the Case Manager Program.
- The transition process from review examiner to case manager.
- The case manager's responsibilities including the responsibility for processing applications, reviewing examination reports, and performing off-site monitoring.
- Coordination and communication with the Washington Office and field offices.
- Coordination and communication with other regulators including the Board of Governors of the Federal Reserve System (Federal Reserve), Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), and state regulatory agencies.
- Coordination and communication with the banks.

Interviews with case managers, regional and Washington Office officials were the primary source for the review results. We did not analyze specific cases or test compliance with policies and procedures. We discussed the results of our interviews with regional management and Washington Office officials.

We conducted our review from August to December 1998 according to the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

Case Managers Viewed Concept Favorably

> The case manager concept provides FDIC with the structure to deal with the changing industry and focus on risk assessment.
>
> -Assistant Regional Director



Source: OIG analysis of case manager responses

> Case managers know more about institutions in their portfolio and, accordingly, are in a better position to control the supervisory strategies. This is especially true for large banking organizations.
>
> -Case Manager

Of the case managers we interviewed, 85% were proponents of the concept. These case managers believed the program was working in line with the envisioned goals-–enhancing risk assessment, encouraging a more coordinated proactive supervisory strategy, and improving communication with other regulators. Regional management in all offices also viewed the program favorably. Nonetheless, 15% of case managers viewed the program negatively. These case managers believed the program diminished FDIC's expertise, the job was too much for one person, or smaller institutions did not benefit as much as larger institutions.

Enhancing Risk Assessment

To assess risk properly, case managers are responsible for maintaining an informed position on their caseloads. Case managers:

- review reports of examination and correspondence,
- process applications,
- review press releases and other media sources,
- consider exception reports generated by offsite monitoring systems, and
- communicate with regulatory counterparts and financial institution officials.

For large institutions, holding companies, and chain organizations, case managers are also required to prepare comprehensive quarterly offsite analysis.

One case manager said the supervision of a large holding company in her portfolio involved as many as seven DOS staff before the implementation of the Case Manager Program. Everyone was looking at a different piece of the organization. For example, the Washington Office looked at the holding company, review examiners from New York and Boston dealt with the examination reports of the individual banks under the holding company and processed applications. She said communication among those individuals was virtually nonexistent. Consequently**,** the supervisory approach was disjointed and inconsistent.

Conversely**,** under the case manager approach, she was the focal point for supervision of the organization. Specifically, she reviewed all the examination reports and correspondence, did the offsite analysis, and talked with the examiners and other regulators. Consequently, when DOS management in the Washington Office asked a question about the organization's exposure to hedge funds in the second half of 1998, she was able to respond quickly. Other case managers told us about similar experiences. According to the DOS Assistant Director of Supervision and Applications Branch, Office of Operations, case managers should be able to provide this real time analysis.

Encouraging a More Coordinated, Proactive Strategy

Case managers provided us with examples of successful coordination activities. They included:

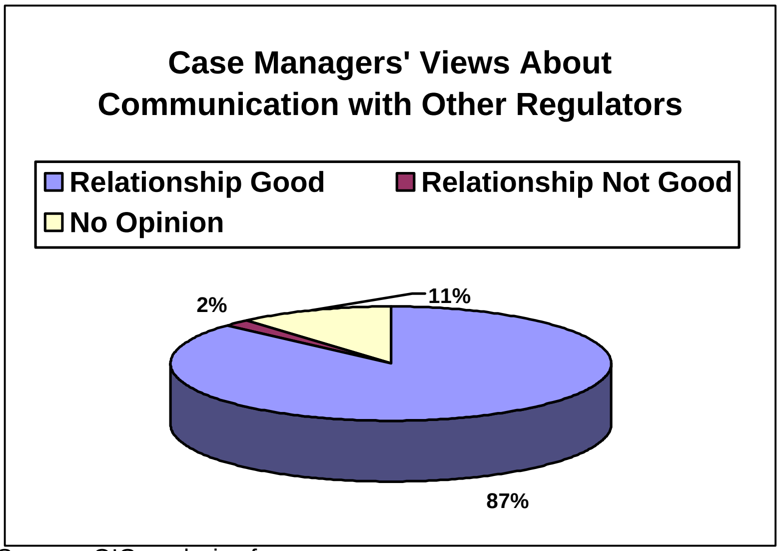
- An Atlanta case manager coordinated concurrent examinations of affiliated institutions located in three states. The FDIC assigned one examiner-in-charge to complete the examinations of institutions in Virginia, South Carolina, and North Carolina. The case manager considered the effort to be a success and thought that the approach would be tried again at other institutions. Moreover, the case manager said the lead bank was pleased by the coordinated exams because they were less burdensome.

- In Kansas City, the case manager coordinated with OCC to request information from the lead bank. The case manager worked with OCC officials to determine the information needed from the lead bank and consolidated that request. More importantly, she met with OCC officials to ensure the regulatory agencies agreed on the findings and presented a unified position to the institution. In her view, the Case Manager Program fostered this type of interaction and ultimately reduced the regulatory burden.

- A Chicago case manager said that she worked with OCC and the Federal Reserve regulators to get a state nonmember bank of a holding company to take corrective actions related to Year 2000 (Y2K) issues. OCC and the Federal Reserve regulators talked to officials at the parent company who in turn agreed to fix the problems.

Improving Communication with Other Regulators

FDIC considers ongoing coordination and communication critical to effectively meeting its risk assessment responsibilities.



Source: OIG analysis of case manager responses

Of the case managers we interviewed, 87% believed that communication and coordination with other regulators had improved since the implementation of the Case Manager Program. Case managers said they met or talked with other federal regulators at least once a quarter for the LIDIs. One case manager pointed out that the ongoing coordination with other regulators promoted consistency among the regulators. This, in turn, resulted in a better perception of the regulators from the banking industry.

Only 2% of case managers characterized their overall relationship with other regulators as not good. However, some case managers said that their relationships with individuals at other regulatory agencies were not always the best. Case managers attributed the difficulties to “personality issues” or concerns from primary regulators about the FDIC intruding on their “turf.” For example, in one region, a case manager said the “turf” problems began in the early 1990s when FDIC began exercising its back-up authority. The primary regulator for that institution considered FDIC’s action an invasion of their “turf.” In this instance, the case manager said it had been difficult reestablishing an effective working relationship.

Case Managers Concerned About Workload

> In order for a case manager to effectively meet his/her responsibilities, caseloads must be manageable.
>
> -Process Redesign Committee Memorandum on Case Manager Concept

Despite the overall positive view of the concept, 47% of case managers told us, given the broad range of responsibilities, that it was difficult to do everything well and still meet deadlines. Only 11% of case managers interviewed said that their workload was manageable. The remaining case managers did not comment.

With Y2K reports to review and ongoing responsibility for any problem banks, case managers concerned about workload said that it was difficult to meet all the competing deadlines and do a quality job. Appendix IV describes the case managers' principal duties and responsibilities. In some regions, case managers had to rely on staff detailed to the regional office to process safety and soundness examination reports.

Those that raised this issue generally believed that the program needed to be modified to ensure that case managers have the time necessary to assess risk and focus on supervisory activities. For example, some case managers believed it was inefficient for case managers to process applications. In their view, a case manager should spend more time focusing on safety and soundness reports and issues, not processing applications. Some case managers also believed that preparing the quarterly LIDI reviews was a time consuming process that did not add value.

Moreover, case managers said that management information systems currently in place to support the program, such as the Banking Information Tracking System (BITS) and the Application Tracking System (ATS), were not user friendly. Even case managers with smaller institutions in their portfolios told us that workload was a concern. They said smaller institutions took time because bankers tend to call case managers more frequently for information. Case managers said that addressing these questions, while not burdensome, took time.

Potential Increases to Workload

Year 2000
Some case managers were concerned about the increased workload from phase II Y2K testing. Case managers must review the Y2K reports. Institutions rated unsatisfactory or need to improve require additional work.

Problem Banks
Some case managers were concerned about workloads if the economy enters a downturn and institutions' ratings begin to fall in increased numbers. The case manager is the central point of contact for activities related to problem institutions. Some case managers said their workload would be overwhelming if there were more problem banks.

When the program was envisioned, DOS recognized that the realignment of responsibilities from as many as four staff specialists to one generalist might result in considerable loss of productivity during the start-up phase of the program. Additionally, DOS thought that some loss in productivity, even following the implementation period, might be inescapable due to the elimination of some specialty units, particularly applications and financial analysis. Ultimately, DOS management believed that productivity would be restored once the case managers gain experience handling the new responsibilities.

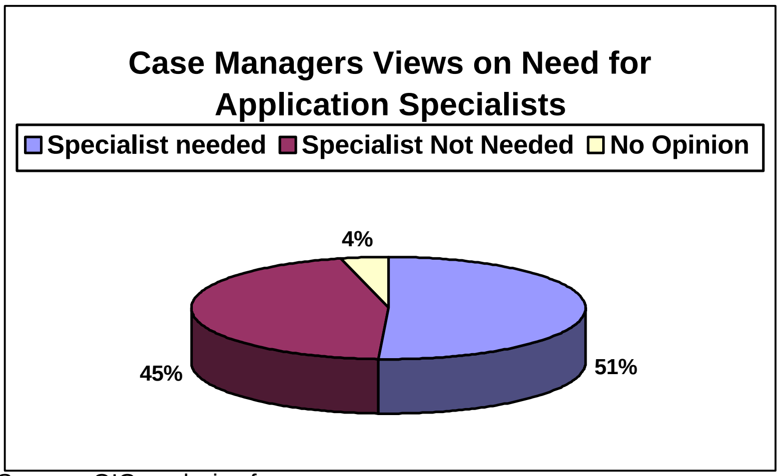
In most regions, Regional Directors and Assistant Region Directors evaluated the workload of the case managers. To the extent practical, regional management tried to ensure that the workload was equitable. However, financial institutions submit applications at their discretion and regional management cannot control the flow. During the course of our review, the Washington Office was developing new information systems that should streamline certain processes, especially the Quarterly LIDI Review (QLR) process. The Kansas City and Memphis offices were also developing a system that should assist in managing the workload.

A manageable workload was viewed as a key to the program's success. One member of the Process Redesign Committee told us the committee looked at what constituted a manageable workload, but that it was an area that the Corporation should study further. We agreed. Specifically, we recommended that DOS study the impact of potential increases to workload and methods for mitigating the risk that case managers would be unable to fully carry out all of their responsibilities should events occur that would cause those increases.

51% of Case Managers Saw Need for Application Specialist

> Processing applications is not that difficult. It is time consuming and takes a certain amount of concentration.
>
> -Case Manager

In some regions, the case manager approach eliminated the application specialist and assigned those duties to the case manager. Specifically, case managers are responsible for reviewing, evaluating, and processing all applications filed by institutions within their assigned caseloads.



Source: OIG analysis of case manager responses.

Of the case managers we interviewed, 51% interviewed thought that DOS needed to reintroduce the application specialist. Generally, these case managers said that they could not process applications efficiently within established deadlines because they were not always familiar with processing procedures – the learning curve was steep. Additionally, case managers were concerned that they spent a disproportionate amount of their time processing applications, some of which they considered to be strictly administrative in nature.

Case Managers Advocating Need for Specialists Believed:

- Processing applications should not be one of their primary responsibilities, although they recognized the need to be knowledgeable about application activity.
- The amount of time they spent on applications reduced the amount of time they could focus on other responsibilities, such as safety and soundness issues and off-site analysis.
- Applications took precedent over other priorities because of their statutory timeframes. Some said this was difficult to manage when quarterly off-site monitoring reports were due or other matters needed attention. In some regions, case managers relied on staff detailed to the region or colleagues to assist them.

However, 45% of the case managers we interviewed and regional management believed that case managers were in the best position to evaluate applications because of their knowledge of the institution.

In general, case managers said the amount of time and effort to complete an application varied with the type of application. For example, case managers said branch applications were relatively easy and more frequent than other types. However, de novo applications were complex and more time consuming. In addition, some case managers said they processed some application types so infrequently the learning curve was not shortened. Some case managers said that the *Case Managers Procedures Manual* and regional subject matter experts were helpful tools, but it still took time to research the requirements.

Case managers did not specifically state what percentage of their time they spent processing applications. Some case managers estimated that they spent as much as 50% of their time on applications. We obtained a report of Case Manager Hours from DOS' Scheduling Hours and Reporting Package (SHARP) system. This report listed for each region the hours of all case managers reported by activity categories for the 2nd and 3rd quarters of 1998. According to this report, on average, case managers are spending approximately 12% of their time on application activities. Because many case managers we interviewed said applications involved a lot of clerical or administrative time that case managers may post to other activity categories, we could not conclude whether this was an accurate indicator.

Additionally, FDIC made substantial revisions to Part 303 of FDIC's Rules and Regulations, which governs the filing and processing of various applications during our review. One of the most significant features of this revised regulation is that of expedited processing that is now available for "eligible depository institutions." Some case managers were not sure of the impact of these new regulations, but others thought the new guidelines would increase the time pressure on case managers to process applications.

The views of case managers were primarily a function of two factors:

- Level of application activity.
- Existence of an application specialist before the implementation of the Case Manager Program.

Contrasting Views

In the San Francisco region, review examiners processed applications before the implementation of the case manager program. None of the case managers interviewed in San Francisco viewed applications as a major challenge, although the region processed the second highest number of applications for the first three quarters of 1998. Case managers in San Francisco said that their experience made them more adept at processing applications.

Conversely, in Atlanta, many of the case managers interviewed believed it would be more efficient to have application specialists. The Atlanta region had the most applications for the first three quarters of 1998 and generally, case managers had little experience processing applications before the implementation of the Case Manager Program.

Aside from detailing staff to alleviate workload pressure, a few regions have application assistants. In Kansas City, regional management said it had worked quite well. The Regional Director attributed a reduced error rate on applications to the application clerk.

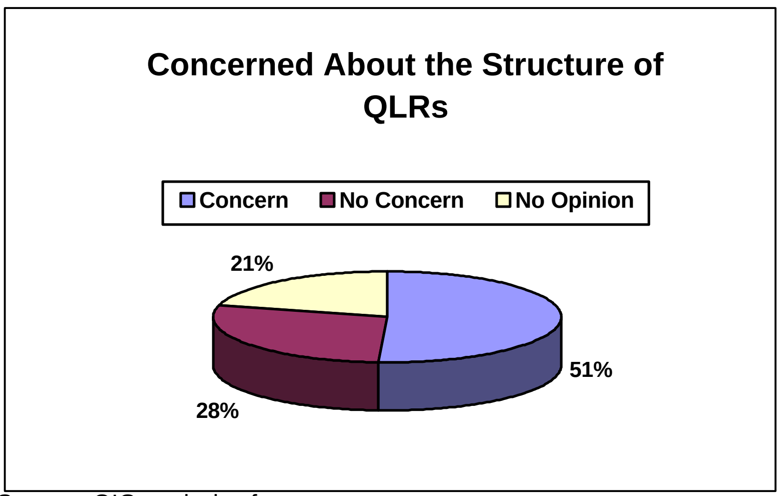
DOS senior management in Washington and the regional offices were aware of the challenge that applications presented to case managers. Moreover, regional office management acknowledged that case managers spent a lot of time processing applications. In fact, regional management in some offices acknowledged that with the high number of applications, a specialist might be more efficient. Nonetheless, regional management believed that, in time, case managers would overcome the applications learning curve.

The Case Manager Program designers knew that the FDIC would lose some efficiency in the switch. We recognized that the level of application activity varies and is not controlled by DOS. Moreover, we recognized that DOS officials have considered the need for application specialists at various times. However, because half of the case managers we interviewed were concerned about the impact this function had on their ability to meet other responsibilities, we recommended that DOS evaluate Regional Office best practices for managing the fluctuating workload.

Case Managers Concerned About Quarterly LIDI Review Process

> Financial Institutions continue to grow in size and complexity. In this environment, integration of timely and regular offsite monitoring into the overall risk assessment effort continues to be extremely important.
>
> -Case Managers Procedures Manual

The LIDI program requires quarterly analysis of the condition of companies with consolidated total assets in insured institutions of at least $3 billion. While these are primarily holding companies, the program includes unit banks and thrifts. Companies in the LIDI program account for approximately 75% of the nation's banking and thrift assets. In order to quantify the analysis and facilitate overall trend analysis, an offsite rating is assigned to each company. The analysis of each company is presented in the QLR. DOS considers the LIDI program an essential part of its risk monitoring process.



Source: OIG analysis of case manager responses

Of the case managers we interviewed, 87% prepared at least one QLR. In fact, the case managers we interviewed were responsible for 46% of LIDIs nationwide. Generally case managers agreed that that analysis of the large institutions was important. Although case managers said QLR enabled them to focus on the LIDIs, as the graph indicates, 51% of the case managers interviewed told us they were concerned about the present structure of the QLR.

The QLR is a stand-alone document and consists of five major components:

- Executive Summary
- Organizational Overview
- Financial Overview

- Risk Profile
- Supervisory Program

According to the *Case Managers Procedures Manual*, the monitoring and analysis of each LIDI should be dynamic. The LIDI program should provide timely, proactive risk profiles of institutions which, because of their size, present the largest potential insurance risks. The QLRs should result in a comprehensive written analyses documenting DOS views about the risk profile and supervisory strategy for large institutions, most of which are not directly supervised by FDIC. Finally, the LIDI program should establish a foundation upon which the Washington Office can judge emerging regional and national trends.

> There is a major commitment made to prepare and review these reports in the region every quarter.
>
> -Case Manager

However, case managers questioned the usefulness of the QLRs as presently structured. The first concern raised by some case managers dealt with the amount of time required to obtain the summary of financial information and ratios, analyze the information, assess the risk, and prepare the reports. Some case managers said that it took so much time to get the financial data that they had very little time to spend on the analysis and assessment of risk. Some said it was a challenge to meet the deadlines imposed for the QLRs and do a quality job. Accordingly, some case managers said the analysis might not be as thorough as it could be.

Secondly, case managers did not view the reports as being timely or dynamic. Specifically, some case managers pointed out that their analysis was based on old information. For instance, the September 30, 1998 QLRs were based on June 30, 1998 data. Case managers stressed that the underlying financial data was 1 to 2 quarters behind by the time DOS executives in Washington reviewed the QLRs. Given the dynamics of the industry, case managers questioned whether the reports were the best vehicle for communicating emerging risks to senior officials in Washington. When Washington officials needed to know about the risks associated with hedge fund activity – they called case managers.

Generally, case managers said they received few comments about the QLRs from the Washington Office. In fact, some case managers were unsure who besides regional management reviewed the detail sections of the reports. A few viewed the reports as a writing exercise.

Generally, regional management shared the case managers' views. In most offices, regional management believed the QLRs needed to be streamlined. Regional management also questioned whether the reports were that useful to the Washington Office. In short, most thought the process needed to be reevaluated to allow case managers time to thoroughly assess risk and communicate that analysis in a more abbreviated format. Regional management and case managers discussed various suggestions aimed at streamlining and improving the process.

Specific Case Manager Suggestions about QLR

Frequency

- ✓ Prepare LIDI reports annually. One case manager suggested the LIDI be prepared to coincide with the release of the entity's audited financial statements. Case managers further suggested that significant activity, such as a change in management or acquisition, could be reported on an exception basis.
- ✓ Prepare LIDI reports semi-annually and only highlight changes for other quarters.
- ✓ Prepare LIDI reports based on the institution's composite rating. For example, prepare LIDI reports annually for institutions with a composite rating of 1 or 2. LIDIs with composite ratings of 3, 4, or 5 could be done every quarter.

Structure and Content

- ✓ Make the LIDI report a "living document". Specifically, the LIDI report should be on a server or mainframe. Case managers could update the report in "real time". Thus, DOS management would have access to the latest information.
- ✓ Increase the dollar threshold for a LIDI report. For instance, one case manager suggested using a $10 billion threshold. This threshold would reduce the number of LIDI reports prepared each quarter and still focus on the institutions with the largest potential risk to the insurance fund.
- ✓ Shorten the report prepared because senior Washington DOS management appears to focus on the executive summary.

Systems

- ✓ Improve access to other regulators' systems to better leverage information available. For instance, case managers said that access to the Federal Reserve systems has been promised, but not yet realized.

Some regional offices initiated actions to improve the QLR process. For example, Kansas City's case managers started meeting to review the format and content of selected reports each quarter. The intent of the meetings was to learn from each other. Other case managers suggested it would be beneficial to form a focus group to discuss best practices. In Memphis, case managers highlight the changes from prior quarters to facilitate and expedite regional management review.

> The purpose of the meetings was to critique not criticize.
>
> -Kansas City Case Manager

Washington Office officials said they were aware of the case managers' concerns. In fact, they had discussed many of the issues raised to us by case managers and options for improving the process at a conference in August 1998. The conference was for case managers who prepared LIDI reviews. Washington Office officials told us they thought the session went well. However, some of the case managers who attended told us they were not sure whether the conference had resulted in any proposed or actual changes in the process. Additionally, Washington Office officials said they reviewed the QLRs and forwarded the executive summaries to senior DOS management. Moreover, the *Case Managers Procedures Manual* describes the Washington Office responsibilities for reviewing the QLRs.

Washington Office officials also believed case managers should not need to spend as much preparing reports going forward because case managers were now more familiar with the institutions in their portfolios. Additionally, Washington Office officials said various initiatives were underway to improve the reports and the way the reports were prepared. These new initiatives include new data systems to track institutions and integrate several of the older FDIC systems such as BITS. Washington officials believed these initiatives will address many of the case managers' concerns. Nevertheless, Washington Office officials acknowledged that the process was evolving slower than anticipated because coordination efforts with other federal regulators including OCC, the Federal Reserve, and OTS was complex and time consuming.

> In size, in complexity, in sensitivity to the global market place, banks today are not what they were five years ago, and FDIC as an insurer and a supervisor must adapt accordingly, which means we must find ways to better understand these increasingly large, complex institutions, the businesses they conduct, and the risks they pose. We have to identify risks to the banks – and if they are significant, deal with them. That means re-deploying and refocusing our resources where they are needed. That means working as a team to acquire better information about risks. That means educating and training staff so we can better understand the changing financial landscape.
>
> FDIC Chairman, February 4, 1999

In talking with case managers, regional office management, and Washington Office officials, all seemed to agree about the importance of monitoring the large insured institutions and ways for the LIDI program to evolve. However, it did not appear that case managers knew the status of various initiatives underway to improve the process, nor were they and regional office management certain how Washington Office officials actually used the QLRs. These views, coupled with previously noted views regarding timeliness of QLR data and the extent of effort required to prepare the reports, should be of concern to DOS.

Accordingly, we recommended DOS study whether the effort required to prepare the QLRs, in their current form, is worth the value the reports provide; or actions can be taken to increase the value of the reports. Finally, given the importance of the QLR as a vehicle for assessing risk for the megabanks, we referred this as an area that the OIG's Office of Audits should consider for possible further review.

Final Thoughts

To adapt to an interstate-banking environment and to enhance efficiency, communication, and quality of the supervision process, DOS restructured its safety and soundness supervision operations along the case manager concept. Most of the case managers we interviewed viewed the program favorably. They believed the program is enhancing the Corporation's ability to assess and proactively direct supervisory activity, particularly for large banking organizations. Case managers also stated that communication and coordination with other regulators improved since the implementation of the Case Manager Program.

However, nearly half of the case managers we interviewed said it was difficult to effectively manage their workload because of competing responsibilities. Given the range of responsibilities, case managers said it was increasingly difficult to do everything well and still meet deadlines. Some case managers pointed out that this "strain" existed in an environment with relatively few problem banks.

We realized the concerns we heard may be unique to those we interviewed. Additionally, the concerns raised may not have been new issues; in fact, we found that they were not. However, when the program was created, a manageable workload was considered a critical factor in the success of the case manager concept. We believed it was significant that nearly half of those we interviewed were concerned about their ability to manage their workload. It was equally important that half of the case managers believed there was a need for an application specialist and that 51% expressed concerns about the QLR.

We recognized that DOS had several initiatives underway that may address many of the issues raised by the case managers we interviewed. Nonetheless, given the reliance the Corporation places upon case managers to assess risk and coordinate supervisory activity, we recommended that DOS:

1. Study what constitutes a manageable workload for a case manager. Specifically, DOS should consider studying the impact of potential increases to workload and methods for mitigating the risk that case managers would be unable to fully carry out all of their responsibilities should events occur that would cause those increases.

2. Evaluate regional office best practices for managing the fluctuating applications workload.

3. Study whether the effort required to prepare the QLRs, in their current form, is worth the value the reports provide; or actions can be taken to increase the value of the reports.

Finally, we appreciated the candor and thoroughness of the case managers and regional management officials to whom we spoke. Our perception was that the views we heard were reflective of individuals sincerely striving to improve how well the Corporation assesses and deals with the risks associated with large banking organizations. This report was provided to DOS with that same purpose in mind.

Corporation Response and OIG Evaluation

On March 29, 1999, the Director, DOS, provided the Corporation's written response to a draft of this report. Overall DOS agreed with the report. Appendix I includes DOS's written response. The Director provided a reasonable explanation for not implementing recommendation one and agreed with recommendations two and three. Accordingly, DOS's written response provides the requisites for management decisions on all three recommendations.

Study what constitutes a manageable workload. Specifically, DOS should consider studying the impact of potential increases to workload and methods for mitigating the risk that case managers would be unable to fully carry out all their responsibilities should events occur that would cause those increases (recommendation 1). The Corporation's response explained the current process of determining workloads. DOS "believes that the current structure of the Program is not overly burdensome, and that regional processes in place currently provide for proper monitoring of workload fluctuations." We consider management's comments responsive to the intent of the recommendation 1.

Appendix I

CORPORATION COMMENTS

Appendix I

CORPORATION COMMENTS

Appendix I

CORPORATION COMMENTS

Appendix II

Management Response to Recommendations

This table presents management responses to recommendations in our report and the status of management decisions. Management's written response to our report provided the information for management decisions.

Rec. Number	Corrective Action: Taken or Planned	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	Division of Supervision (DOS) stated that it believed that the regional processes in place currently provide for proper monitoring of workload fluctuations.	N/A	DOS 3/29/99 response to a draft of this report.	No	Yes
2	DOS will contact each of the eight regional offices to discuss management's practices for monitoring and addressing fluctuations in applications workload. Any resulting best practices identified will be documented and distributed to the regions.	12/31/99	Summary of best practices.	No	Yes
3	DOS' Risk Management and Applications Section has initiated a review of the current quarterly large insured depository institution reviews. DOS anticipates that the structure, frequency, and distribution of these reviews will be amended.	12/31/99	Revised Case Managers Procedures Manual.	No	Yes

Appendix III

Summary Data about Case Managers Interviewed [1]

REGION	POPULATION			SAMPLE		
	No. of Case Managers	No. of Large Insured Depository Institutions	Total Assets (in billions)	No. of Case Managers Interviewed	No. of Large Insured Depository Institutions	Total Assets (in billions)
Atlanta	22	23	822.6	9	11	302.4
Boston	13	8	280.5	7	5	207.6
Chicago	30	31	1,022.6	8	14	657.5
Dallas	19	9	200.1	6	8	97.0
Kansas City	35	14	436.7	5	11	265.3
Memphis	17	9	215.2	5	4	97.4
New York	26	42	840.0	6	13	290.2
San Francisco	30	23	534.3	7	7	223.4
Total	192	159	4,352.0	53	73	2,140.8
% of population				28%	46%	49%

Source: Case Load Summary Report as of November 10, 1998

[1] We did not test the underlying data in these reports.

Appendix IV

Case Managers' Principal Duties and Responsibilities

The following summarizes the case managers' principal duties and responsibilities as described in the *Case Managers Procedures Manual*.

Direct Supervisory Strategy

The supervisory strategy of all FDIC insured institutions is primarily driven by statute according to their CAMELS rating, with adjustments resulting from changes in an organization's risk profile, structure, business strategies, or logistical considerations. Case managers will be responsible for ensuring that supervisory strategies for institutions within their portfolios are appropriate and revised as needed. Therefore, case managers will have to keep abreast of significant issues related to, or which may affect, their assigned organizations (e.g., risk/trend related matters, accounting, reporting or regulatory changes, new activities and products, etc). This process will require on-going coordination with Field Office Supervisors and other regulatory agencies, as well as effective use of offsite monitoring tools, attention to news articles and press releases, and direct communication with financial institution management appropriate to FDIC's supervisory role relative to Federal Reserve Member and National banks and federal thrift institutions.

Establish and Maintain a Dialogue with State and Federal Regulators

Case managers will establish and maintain cooperative relationships with other state and federal supervisory agencies involved with organizations within their caseloads. The goal of this dialogue will be to enhance proactive risk assessment in a non-intrusive manner. Therefore, case managers must remain cognizant that inquiries should address information important to this risk assessment objective.

Communicate With and Respond to Bank Management and the Public

A key aspect of the case managers' responsibilities will involve communication with financial institution management. Communications with management of financial institutions for which FDIC is not the primary regulator generally will be limited to instances in which the primary federal regulator has first been contacted. Case managers will also be responsible for responding to or resolving questions, complaints, and inquiries from the general public.

Review/Process Examination Reports, Applications, Investigations and Correspondence

Case managers will perform activities related to the review, analysis and processing of reports of examination, applications, investigations, and other correspondence involving their caseloads. These activities will include, among other things, preparing summary of findings, memoranda, and recommendations for the Regional Director, as well as preparing miscellaneous correspondence directed to the Washington Office, State Authorities, other federal regulatory agencies, and financial institutions or holding companies.

Initiate and Develop Corrective Programs

Case managers will initiate, conduct, and participate in conferences and meetings with other supervisory authorities and bank officials, as well as develop informal and formal programs designed to correct deficiencies in the operations and condition of the financial institutions under their supervision.

Coordinate with Specialty Areas and the Division of Compliance and Consumer Affairs

Case managers will communicate and coordinate with regional specialists on substantive issues regarding institutions within their caseloads to ensure that risks presented by Information Systems, Trust, Accounting, Capital Markets, and Fraud/Investigations are identified and quantified, and to ensure that a proper supervisory action is taken to minimize risk to the deposit insurance funds. Likewise, regular communication with counterparts within the Division of Compliance and Consumer Affairs (DCA) will be necessary to remain cognizant of substantive compliance or Community Reinvestment Act of 1977 issues that may impact an institution's expansion or consolidation plans or its overall safety and soundness. Coordination with specialists and DCA counterparts will be required for purposes of examination scheduling, with an emphasis on minimizing regulatory burden.

Prepare Management Information Reports

Case managers will be involved in the preparation of a variety of reports to ensure that senior management within FDIC (regional, divisional, and corporate-wide) is informed of significant existing or emerging risks within their caseloads.

Perform Offsite Monitoring and Prepare Analyses

Case managers will be involved in efforts designed to meet FDIC's offsite monitoring and analysis goals as they relate to the assessment of risk to the deposit insurance funds, as well as the financial condition of the individual institutions within their caseloads. In that regard, they will analyze financial and other information filed or reported in accordance with regulatory requirements, as well as information from other sources. Case managers will analyze and prepare quarterly written assessments of the risk profiles of the larger organizations and any other institutions exhibiting potential concern by offsite monitoring systems.

Keep Abreast of Current Economic Trends

Maintaining an awareness and understanding of economic and financial trends that could impact the condition of institutions with their assigned caseload will be a primary responsibility of each case manager. This may involve attendance at industry meetings and discussions with other divisions in the Corporation, particularly the Division of Insurance.

Participate in the Resolution of Failing Banks

Case managers may be involved in the analysis and preparation of recommendations regarding applications by financial institutions for FDIC financial assistance. They may also assist in the development and analysis of financial data used to facilitate resolution transactions in failing bank/thrift situations, as well as the development of bid lists for the Division of Resolutions and Receiverships, as needed.

Provide Technical Guidance and Feedback

Case managers will provide technical advice and guidance to field examiners and other case managers on special situations, examinations, and investigations, and will provide feedback to field examiners on the quality and content of reports of examination and investigations involving institutions in their caseloads.