KENNETH LEVENTHAL'S BILLINGS FOR DUE DILIGENCE SERVICES UNDER CONTRACT 700-90-0014 AND UNSIGNED LETTER AGREEMENT DATED MAY 29, 1992

Audit Report No. 99-029
July 16, 1999

OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

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DATE: July 16, 1999

TO: Michael J. Rubino
Associate Director, Acquisition and Corporate Services Branch
Division of Administration

FROM: Sharon M. Smith
Director, Field Audit Operations

SUBJECT: *Kenneth Leventhal's Billings for Due Diligence Services under Contract 700-90-0014 and Unsigned Letter Agreement Dated May 29, 1992* (Audit Report No. 99-029)

This report presents the results of an audit of Kenneth Leventhal & Company's billings to the Resolution Trust Corporation (RTC) under basic ordering agreement (BOA) 700-90-0014 for bulk sales valuation services and an unsigned letter agreement dated May 29, 1992 (together, hereinafter referred to as contract 700-90-0014). This is the Office of Inspector General's (OIG) fourth report on Kenneth Leventhal's due diligence contract billings to the RTC.[1] The Kenneth Leventhal billings addressed in this report were for work performed under the RTC's 1992 N-1 sales initiative.

BACKGROUND

The RTC's Office of Contracts entered into BOA 700-90-0014 with Kenneth Leventhal on December 12, 1990. Under that BOA, Kenneth Leventhal was to provide valuation services for RTC assets included in large bulk sale transactions. On May 1, 1992, Bear Stearns & Company and Lehman Brothers (Lehman) issued a request for proposal covering three RTC sales initiatives. In a response to contractor questions dated May 7, 1992, Bear Stearns and Lehman stated that one contractor would be awarded all three securitizations:

[1]The first report was entitled *Ernst & Young Kenneth Leventhal Real Estate Group's Billings for Due Diligence Services under Contract 700-93-0039-011, Task Orders 700-004 and 700-014* (audit report number 98-001, dated January 5, 1998). The second report was entitled *Kenneth Leventhal's Billings for Due Diligence Services under Contract 700-90-0014, Letter Agreement Dated January 6, 1993* (audit report number 98-074, dated July 31, 1998). The third report was entitled *Kenneth Leventhal's Billings for Due Diligence Services under Basic Ordering Agreement 700-90-0014 and Letter Agreement Dated May 26, 1992* (audit report number 99-023, dated April 22, 1999).

- 1992 C-5 for performing commercial mortgage loans, which was to be underwritten by Bear Stearns;

- 1992 S-1 for special purpose properties, which was to be underwritten by Lehman; and

- 1992 N-1 for nonperforming commercial mortgage loans, which was to be underwritten by Lehman.

On May 8, 1992, Kenneth Leventhal submitted technical and cost proposals that cited BOA 700-90-0014 and those three securitization transactions. On or about May 21, 1992, through May 29, 1992, letter agreements were drafted for Kenneth Leventhal to perform due diligence of mortgage loans included in the RTC's 1992 N-1 sales initiative.

Neither the Federal Deposit Insurance Corporation (FDIC)[2] nor Ernst & Young (E&Y)[3] provided a signed letter agreement in response to the OIG's request. Instead, E&Y provided two unsigned letter agreements dated May 21, 1992, and May 29, 1992. The wording contained in the second draft agreement for the 1992 N-1 transaction was nearly identical to the wording contained in the 1992 C-5 transaction letter agreement. That agreement was signed on May 26, 1992—3 days before the second draft agreement and 5 days after the first draft agreement. Under the second draft agreement for the 1992 N-1 sales initiative, the RTC agreed to prorate certain leasing costs between the 1992 C-5 and 1992 N-1 securitizations. The second 1992 N-1 draft letter agreement provided signature lines for the Kenneth Leventhal partner-in-charge and the RTC's Assistant Director, Securitization, and stated that Kenneth Leventhal would look solely to the RTC for payment of services and reimbursement of expenses. In addition to relying on the second draft letter agreement, we also relied on the request for proposal and Kenneth Leventhal's cost and technical proposal for applicable contract terms.

One of Kenneth Leventhal's core tasks was data collection and verification—reviewing loan files and summarizing information on file abstract forms (FAF). The type of FAF required was based on the loan type—extended loan review form for nonperforming loans and special loan review form for special purpose loans. Contract 700-90-0014 specified that the RTC would pay for the two FAF types using Kenneth Leventhal's proposed not-to-exceed caps per loan. Included in the not-to-exceed caps were hourly labor rates for five occupational categories plus reasonable out-of-pocket expenses for travel and per diem. The contract did not specify different not-to-exceed caps for due diligence on loans removed from the transaction versus those loans included in the securitization transaction. Kenneth Leventhal billed the RTC for 429 loans that were included in the sales transaction, 13 loans that were deleted after completion of valuation, 35 loans that were deleted after inclusion in the loan database, and 532 loans that were deleted before being input into the loan database.

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[2]As provided in the *RTC Completion Act of 1993*, the RTC went out of existence on December 31, 1995, and the FDIC took over its functions on January 1, 1996.

[3]Kenneth Leventhal merged with E&Y in June 1995. Because it was the successor organization, E&Y provided the OIG with access to Kenneth Leventhal documents and addressed the audit findings. Accordingly, the OIG uses E&Y synonymously with Kenneth Leventhal throughout this report.

The letter agreement specified that all required (or core) tasks were included in the not-to-exceed fees for FAF preparation. The required tasks were specified in attachment A to the May 1, 1992, solicitation. Those tasks included data collection, verification, aggregation, update, and dissemination; assignment and financing statements preparation and recording; document delivery; due diligence letter preparation; and continuing services, as needed, during the securitization and sale. Lehman modified the solicitation on May 6, 1992, to add the core tasks of completing abbreviated property valuations for properties on which asset recovery values were not completed and completing engineering reports on a sample basis.

The contract included several optional tasks at different not-to-exceed caps. Those optional tasks included net operating income analyses and deficiency cures. Contract 700-90-0014 also provided for optional trust auditor tasks at fixed amounts, which included closing and post-closing comfort letters.

Kenneth Leventhal's New York, New York, office supervised the due diligence of the RTC loans at four sites. In addition, the RTC used the services of Lehman to underwrite, securitize (analyze the RTC's inventory of assets, assess investor markets, and structure sales packages), market, and sell the mortgage loans included in the 1992 N-1 sales initiative.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether Kenneth Leventhal's billings under contract 700-90-0014 were in accordance with the contract terms and adequately supported. We reviewed $4,860,848 that Kenneth Leventhal billed the RTC for services performed from May 1992 through November 1992 under contract 700-90-0014 that related to the RTC's 1992 N-1 sales initiative.

For its billings for required and optional tasks, we reviewed Kenneth Leventhal's files and various reports provided to Lehman to determine the number of loans included in and dropped from the transaction. Further, we reviewed Kenneth Leventhal's documentation supporting the number of loans billed for various optional tasks as well as correspondence to determine whether the RTC or Lehman had authorized those optional tasks. For subcontracted tasks, we compared the amounts that Kenneth Leventhal paid on subcontractor invoices to the contractual limits.

For Kenneth Leventhal's billings for additional tasks at hourly labor rates, we reviewed the contract and correspondence that E&Y provided to determine whether the RTC or Lehman authorized the various categories of additional tasks that Kenneth Leventhal billed. For out-of-pocket expenses, we reviewed the billing files and supporting documentation to determine whether the RTC had authorized those expenses. We reviewed the files that E&Y provided for written evidence of any contract modifications or authorizations to perform additional services beyond the specified core tasks. We also requested Lehman to provide any documents evidencing cost modifications to the contract and reviews of the fees charged by Kenneth Leventhal. However, Lehman was unable to provide any documents on those matters.

E&Y did not provide employee time sheets, activity billing codes that corresponded to the hourly tasks billed, billing instructions to employees concerning the hourly tasks, manual or electronic project management databases, or site manager notes concerning additional services billed. E&Y provided three separate sources of hours worked by Kenneth Leventhal employees—schedule of total hours by individuals, weekly time-analysis reports, and internal billing worksheets—each with a different total. The schedule of total hours by individual showed 38,635 total hours, weekly time-analysis reports showed 34,968 total hours, and internal billing worksheets showed 38,472 total hours. Neither the schedule of total hours by individual nor the weekly time-analysis reports provided detailed information on hours spent performing specific tasks. The internal billing worksheets provided (1) the total daily hours worked by employees by activity billing codes and (2) descriptions of work performed recorded by those employees.

To further analyze the hourly billings, we selected a sample of six Kenneth Leventhal employees and summarized their total hours by the descriptions of work performed, as listed on the internal billing worksheets. We then determined the total hours available for each employee to work on hourly tasks and compared those available hours to the hourly tasks that Kenneth Leventhal billed for those employees. However, the hours and descriptions of work performed on the internal billing worksheets could not be reconciled to the hours and tasks that Kenneth Leventhal billed to the RTC.

Between November 17, 1998, and May 3, 1999, the OIG repeatedly requested E&Y to provide billing system documentation, make current supervisory personnel available for interviews, and provide addresses and telephone numbers for former supervisors who worked on contract 700-90-0014. However, as of May 14, 1999, E&Y had not provided the requested documentation or access to interview current E&Y or former Kenneth Leventhal personnel. E&Y responded that it had difficulties locating documentation and arranging meaningful interviews and that limited resources prevented it from responding until it had fully addressed previous OIG audit reports. Accordingly, the OIG interpreted Kenneth Leventhal's internal billing worksheets without the benefit of billing system documentation or oral explanations from E&Y personnel. The OIG considers the lack of reconcilable documents and E&Y's failure to respond to our requests to be an external impairment affecting the scope of the audit.

We did not evaluate E&Y's system of internal controls because the OIG concluded that the audit objective could be met more efficiently by conducting substantive tests rather than placing reliance on the internal control system. The OIG conducted the audit from August 1998 through May 1999 in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Kenneth Leventhal billed the RTC $4,860,848 for core and hourly tasks and out-of-pocket expenses under contract 700-90-0014. Table 1 summarizes Kenneth Leventhal's billings under contract 700-90-0014 and the amounts questioned.

Table 1: Kenneth Leventhal's Billings and OIG Questioned Costs for Contract 700-90-0014

Category	Billed	Questioned
Hourly labor billings	$1,845,788	$1,785,788
Out-of-pocket expenses	1,275,227	818,312
Due diligence fees for loans included in the sale	1,344,705	0
Due diligence fees for loans dropped from the sale	395,128	0
Totals	**$4,860,848**	**$2,604,100**

Source: OIG analysis of Kenneth Leventhal's bills and supporting documentation

We questioned $1,785,788 of the $1,845,788 that Kenneth Leventhal billed as hourly fees because the amounts billed (1) were for tasks that were included in the not-to-exceed caps per loan, (2) exceeded contractual limits, or (3) were for unauthorized tasks. We questioned $818,312 of the $1,275,227 that Kenneth Leventhal billed as out-of-pocket expenses because the amounts billed (1) exceeded contractual limits, (2) were for unauthorized expenses, or (3) were unsupported.

Based on our audit, the OIG recommends that the FDIC's Associate Director, Acquisition and Corporate Services Branch, Division of Administration, disallow $2,604,100 of questioned fees and expenses paid to Kenneth Leventhal under contract 700-90-0014.

UNALLOWABLE HOURLY LABOR BILLINGS

Kenneth Leventhal billed the RTC $1,845,788 in hourly labor fees. Of that amount, the contract allowed a flat fee of $60,000 for preparing the agreed-upon-procedures letter. We questioned the remaining $1,785,788 because the amounts billed were for either required tasks included in the not-to-exceed caps per loan or additional services for which Kenneth Leventhal had no written authorization. Table 2 summarizes Kenneth Leventhal's hourly labor billings and the amounts questioned.

Table 2: Kenneth Leventhal's Hourly Labor Billings and Amounts Questioned

Category	Billed	Questioned
Bidder package[a]	$ 686,631	$ 686,631
Investor-related tasks[b]	351,151	351,151
Preparation costs associated with valuation methodology[a]	297,618	297,618
Database/valuation[a]	109,504	109,504
Extra requirements and costs at sites[a]	108,249	108,249
Agreed-upon-procedures/private-placement memorandum[c]	96,920	36,920
Rating-agency requests[b]	68,110	68,110
Site inspections[a]	52,915	52,915
Management/administrative costs[b]	51,255	51,255
Additional assignment costs[a]	23,435	23,435
Total	**$1,845,788**	**$1,785,788**

[a]Required task included in the not-to-exceed caps per loan.

[b]Additional services that were not authorized.

[c]Optional task bid as a flat fee.

Source: OIG analysis of Kenneth Leventhal's bills and supporting documentation.

The contract's scope of services defined the required or core tasks that were included in the not-to-exceed caps per loan. Contract 700-90-0014 also required Kenneth Leventhal to bill any approved services not included in the core tasks at current billing rates announced by the RTC. E&Y did not provide any support for approval to perform services not included in the core tasks. In addition, Lehman could not locate any documentation concerning contract modifications or requests for services outside of core tasks.

Altogether, Kenneth Leventhal billed the RTC $1,278,352 for core tasks included in the not-to-exceed caps per loan. Kenneth Leventhal also billed the RTC $470,516 for unauthorized tasks and $36,920 in excess of contractual limits. E&Y provided no support that the RTC or Lehman authorized investor-related tasks, rating-agency requests, or management and administrative costs. In addition, although Kenneth Leventhal bid a $60,000 flat fee for preparing an agreed-upon-procedures letter, it billed the RTC $96,920 for the letter, a difference of $36,920. Accordingly, we questioned all amounts that Kenneth Leventhal billed as hourly labor except for the $60,000 flat fee that Kenneth Leventhal bid for preparing the agreed-upon-procedures letter.

In addition to hourly billings for tasks that were included in the not-to-exceed caps or were not authorized, Kenneth Leventhal's hourly billings were not supported by its internal billing worksheets. The descriptions of work performed, as listed on Kenneth Leventhal's internal billing worksheets, showed that its employees spent a large percentage of their time working on core and nonbillable tasks rather than on the hourly tasks billed.

For example, the internal billing worksheets for the partner-in-charge showed that he spent 102.7 of 384 hours on core and nonbillable tasks, leaving 281.3 hours that could have been devoted to hourly tasks. There were no comments on the internal billing worksheets regarding how 91.3 of those 281.3 hours were spent. Kenneth Leventhal billed the RTC 344.5 hours for hourly tasks for the partner-in-charge. At the partner-in-charge's $205 an hour billing rate, the difference between billed and supported hours totaled $12,956. Likewise, the internal billing worksheets for a senior professional showed that 837.9 hours could have been spent on hourly tasks, whereas Kenneth Leventhal billed 1,025.8 hours for hourly tasks for that employee, a difference of $21,796 at $116 an hour. In addition, the internal billing worksheets for a junior professional showed that 674.5 hours—for which there were no comments regarding how 593 of those hours were spent—could have been spent on hourly tasks. However, Kenneth Leventhal billed 1,119 hours for hourly tasks, a difference of $32,004 at $72 an hour. Table 3 summarizes the hours available for each of those employees to work on hourly tasks based on internal billing worksheet descriptions of the work performed and the hours that Kenneth Leventhal billed for those individuals at an hourly rate.

Table 3: Available Hours Versus Hours Billed for Selected Kenneth Leventhal Employees

Internal Billing Worksheet Description	Partner-in-Charge	Senior Professional	Junior Professional
Billing hours[b]	22.5	102.8	205.5
Due diligence hours[a]	0.0	0.0	775.5
Hours incurred before May 21, 1992, start date[b]	22.5	0.0	0.0
Out-of-office hours[b]	6.5	0.0	0.0
Planning hours[a]	0.0	182.6	0.0
Status meetings hours[b]	51.2	0.0	0.0
Hours identified as core or nonbillable tasks[d]	102.7	285.4	981.0
Total hours on internal billing worksheets	384.0	1,123.3	1,655.5
Hours available for hourly fees[c]	281.3	837.9	674.5
Hours billed as hourly fees[d]	344.5	1,025.8	1,119.0
Billed over available hours for hourly fees	63.2	187.9	444.5
Hourly billing rate	$205	$116	$72
Unsupported hourly labor billing	**$12,956**	**$ 21,796**	**$32,004**
Total hourly labor billing	**$70,623**	**$118,993**	**$80,568**

[a]Core task.

[b]Nonbillable task.

[c]Hours available for hourly fees equals total hours less core and nonbillable hours on internal billing worksheets.

[d]Kenneth Leventhal billed some tasks as hourly, which the OIG considers as core or nonbillable tasks (e.g., agreed-upon-procedures and comfort letter). To avoid duplication, those tasks were not included in the hours identified as core or nonbillable and not subtracted from the hours billed as hourly fees.

Source: OIG analysis of Kenneth Leventhal's internal billing worksheets, bills, and supporting documentation.

Discrepancies also existed for individual tasks between the internal billing worksheets and Kenneth Leventhal's hourly billings to the RTC. Table 4 provides the tasks that did not reconcile between the internal billing worksheets and Kenneth Leventhal's hourly bill to the RTC for the three sampled employees.

Table 4: Hours Charged on Kenneth Leventhal's Internal Billing Worksheets and Hourly Bill to the RTC for Selected Employees

Description of Work Performed	Partner-in-Charge		Senior Professional		Junior Professional	
	Worksheet Hours	Hourly Bill Hours	Worksheet Hours	Hourly Bill Hours	Worksheet Hours	Hourly Bill Hours
Agreed-upon-procedures memorandum[a]	33.0	41.0	110.3	40.0	89.5	0.0
Additional assignment costs	2.0	15.0	0.0	0.0	0.0	5.0
Bidder package	54.5	92.0	0.0	185.0	0.0	379.0
Comfort letters	52.5	80.0	8.5	120.0	0.0	160.0
Database/valuation	6.0	17.0	0.0	0.0	0.0	15.0
Extra requirements and site costs	0.0	12.5	0.0	50.0	0.0	120.0
Investor-related tasks	5.0	13.0	152.8	130.0	0.0	275.0
Management/administration costs	3.5	15.0	0.0	40.0	0.0	40.0
Rating-agency requests	16.0	10.0	101.8	131.8	0.0	0.0
Site inspections	0.0	10.0	0.0	0.0	0.0	125.0
Valuation methodology	17.5	39.0	461.7	329.0	0.0	0.0
Total hours	**190.0**	**344.5**	**835.1**	**1,025.8**	**89.5**	**1,119.0**

[a]Includes private-placement memorandum.

Source: OIG analysis of Kenneth Leventhal's internal billing worksheets, hourly bill to the RTC, and supporting documentation.

UNALLOWABLE OUT-OF-POCKET EXPENSES

Kenneth Leventhal billed the RTC $1,275,227 for out-of-pocket expenses, of which $456,915 were authorized by the RTC and supported by E&Y. We questioned the remaining $818,312 because the amounts billed (1) exceeded established contractual limits, (2) were for unauthorized expenses, or (3) were unsupported. Table 5 summarizes the amounts billed, allowed, and questioned for out-of-pocket expenses.

Table 5: Kenneth Leventhal's Out-of-Pocket Expenses Billed and Amounts Questioned

Category	Billed	Questioned
Bidder packages	$ 480,360	$170,570[a]
Site inspections	429,120	296,046[b]
Investor-related tasks	266,697	261,697
Extra requirements and costs at sites	31,606	22,555[c]
Additional assignment costs	29,245	29,245
Preparation costs associated with valuation methodology	22,927	22,927
Database/valuation	7,026	7,026
Management/administrative costs	3,806	3,806
Rating-agency requests	3,710	3,710
Agreed-upon-procedures letter	550	550
Math error	180	180
Total	**$1,275,227**	**$818,312**

[a]$8,019 of which is unsupported.

[b]Amount in excess of amount paid or contractual limit of $225 per loan.

[c]$4,596 of which is unsupported.

Source: OIG analysis of Kenneth Leventhal's bills and supporting documentation.

Contract 700-90-0014 provided that out-of-pocket expenses for required tasks were included in the not-to-exceed caps per loan. Kenneth Leventhal could bill reasonable and customary out-of-pocket expenses for authorized additional services. Kenneth Leventhal's proposal stated that the not-to-exceed caps for preparing FAFs included normal out-of-pocket expenses. Kenneth Leventhal's transmittal letter for the 1992 C-5 letter agreement, defined normal out-of-pocket expenses to include travel, hotel, document delivery, and messenger service expenses. Also, the contract entitled Kenneth Leventhal to reimbursement for expenses related to leasing space at the Midland site and the cost proposal specified a $225 not-to-exceed cap per loan for site inspections. Further, a Kenneth Leventhal memorandum dated October 19, 1992, provided a $5,000 allowance for copies of 1992 N-1 files that Kenneth Leventhal provided.

E&Y's supporting documentation for the various billing categories showed that Kenneth Leventhal billed $1,275,227 for out-of-pocket expenses that included such items as food, lodging, transportation, administrative costs, title commitments, site observations, duplication costs, and delivery services. E&Y provided adequate support for $456,915 in authorized expenses for site leasing costs, preparing title commitments, site inspections, and photocopying expenses. Of the remaining $818,312, E&Y did not provide approvals for $509,651 in out-of-pocket expenses or supporting documentation for those unauthorized expenses. Kenneth Leventhal also billed $296,046 for site inspections in excess of the amount paid or the $225 per loan allowance. Furthermore, E&Y did not provide support for $12,615 in otherwise authorized expenses for title commitments (billed under bidder packages) and site leasing costs (billed under extra requirements and costs at sites) that Kenneth Leventhal billed. Accordingly, we questioned $818,312 of the $1,275,227 that Kenneth Leventhal billed for additional out-of-pocket expenses.

CONCLUSION AND RECOMMENDATIONS

Of Kenneth Leventhal's $4,860,848 in invoices to the RTC under contract 700-90-0014, we questioned $2,604,100 (53 percent) as being unallowable, of which $12,615 was unsupported. Accordingly, we recommend that the Associate Director, Acquisition and Corporate Services Branch, Division of Administration, take the following actions:

(1) Disallow $1,785,788 (questioned costs) that Kenneth Leventhal billed as additional hourly labor fees for unauthorized tasks and required tasks covered by the not-to-exceed caps per loan.

(2) Disallow $818,312 (questioned costs, $12,615 of which was unsupported) that Kenneth Leventhal billed for out-of-pocket expenses that were not authorized, exceeded the contractual limit, or were unsupported.

CORPORATION COMMENTS AND OIG EVALUATION

On June 28, 1999, the Associate Director, Acquisition and Corporate Services Branch, Division of Administration, provided a written response to a draft of this report. The Associate Director's response agreed with the recommendations and provided the requisites for a management decision on both recommendations. The response is not summarized because the actions planned or completed are identical to those recommended. The Associate Director's response is presented as appendix I to this report. Appendix II presents management's proposed actions on our recommendations and shows that there is a management decision for each recommendation in this report.

Based on the audit work, the OIG will report questioned costs of $2,604,100 (of which $12,615 is unsupported) in its *Semiannual Report to the Congress*.

CORPORATION COMMENTS

FDIC

Federal Deposit Insurance Corporation
Washington, D.C. 20429 Division of Administration

DATE: June 28, 1999

MEMORANDUM TO: Sharon M. Smith
Director, Field Audit Operations
Office of Inspector General

FROM: Michael J. Rubino
Associate Director
Acquisition and Corporate Services Branch

SUBJECT: MANAGEMENT DECISION
Draft Report Entitled "Kenneth Leventhal's Billings for Due Diligence Services Under Contract 700-90-0014 and Unsigned Letter Agreement Dated May 29, 1992"

The Acquisition and Corporate Services Branch (ACSB) has completed its initial review of the subject Office of Inspector General (OIG) draft report. Our review focused on those recommendations in the report that would be entered into the Internal Review Information System (IRIS). The management decision is presented in three parts: (1) the Executive Summary; (2) Management Decision detail; and (3) an Office of Internal Control Management working summary, presented as Exhibit A.

EXECUTIVE SUMMARY

The following table represents an overview of the management decision. A more comprehensive summary of the decision that details specific areas of agreement or disagreement with the findings and describes necessary corrective actions, including milestone dates, is presented in the table below.

Finding #	Finding Description	Questioned Costs	Management Response	Recovery Amount	Difference
1	Unallowable Hourly Labor Billings	$1,785,788	Agree	$1,785,788	$0
3	Unallowable Out-of-Pocket Expenses	$818,312	Agree	$818,312	$0

MANAGEMENT DECISION

FINDING # 1: Unallowable Hourly Labor Billings

CONDITION: E&Y billed $1,845,788 in hourly charges. OIG questions $1,785,788 of that amount because it says the amounts billed were for either required tasks included in the not-to-exceed caps per loan or additional services for which E&Y had no written authorization.

RECOMMENDATION: The FDIC should disallow $1,785,788 billed as additional hourly labor fees for unauthorized tasks and required tasks covered by the not-to-exceed caps per loan.

MANAGEMENT DECISION: We agree with the recommendation.

CORRECTIVE ACTION: We will allow E&Y an opportunity to refute the OIG findings and consider whatever information they have to provide before we decide what amount to seek to recover. Also, in conjunction with the Legal Division, we will review the circumstances surrounding this overpayment. We will consider our legal position and determine how much of the questioned costs to attempt to recover. We will then take appropriate measures to resolve the questioned costs.

FINDING # 2: Unallowable Out-of-Pocket Expenses

CONDITION: E&Y invoiced $1,275,227 for out-of-pocket expenses, of which $456,915 were authorized by RTC and supported by E&Y. OIG questioned the remaining $818,312 because the amounts billed exceeded contractual limits, were for unauthorized expenses, or were unsupported.

RECOMMENDATION: The FDIC should disallow $818,312 that E&Y billed for out-of-pocket expenses that were not authorized, exceeded the contractual limit, or were unsupported.

MANAGEMENT DECISION: We agree with the recommendation.

CORRECTIVE ACTION: We will allow E&Y an opportunity to refute the OIG findings and consider whatever information they have to provide before we decide what amount to seek to recover. Also, in conjunction with the Legal Division, we will review the circumstances surrounding this overpayment. We will consider our legal position and determine how much of the questioned costs to attempt to recover. We will then take appropriate measures to resolve the questioned costs.

cc: Howard Furner
Andrew Nickle
Mary Rann

EXHIBIT A

SUMMARY OF ACQUISITION AND CORPORATE SERVICES BRANCH MANAGEMENT DECISIONS

NO.	*FINDING DESCRIPTION*	*QUESTIONED COST/OTHER FINANCIAL ADUSTMENT*	*MANAGE-MENT RESPONSE*	*DESCRIPTION OF CORRECTIVE ACTION*	*EXPECTED COMPLETION DATE*	*DOCUMENT VERIFYING COMPLETIO N*
1	Unallowable Hourly Labor Billings	*$1,785,788*	*Agree*	*CORRECTIVE ACTION: We will allow E&Y an opportunity to refute the OIG findings and consider whatever information they have to provide before we decide what amount to seek to recover, Also, in conjunction with the Legal Division, we will consider the circumstances surrounding this overpayment. We will consider our legal position and determine how much of the questioned costs to attempt to recover. We will then take appropriate measures to resolve the questioned costs.*	March 31, 2000	Settlement Agreement
2	Unallowable Out-of-Pocket Expenses	*$818,312*	*Agree*	*CORRECTIVE ACTION: We will allow E&Y an opportunity to refute the OIG findings and consider whatever information they have to provide before we decide what amount to seek to recover, Also, in conjunction with the Legal Division, we will consider the circumstances surrounding this overpayment. We will consider our legal position and determine how much of the questioned costs to attempt to recover. We will then take appropriate measures to resolve the questioned costs.*	March 31, 2000	Settlement Agreement

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report on the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider FDIC's responses as management decisions in accordance with the act and related guidance, several conditions are necessary. First, the response must describe for each recommendation

- the specific corrective actions already taken, if applicable;
- corrective actions to be taken together with the expected completion dates for their implementation; and
- documentation that will confirm completion of corrective actions.

If any recommendation identifies specific monetary benefits, FDIC management must state the amount agreed or disagreed with and the reasons for any disagreement. In the case of questioned costs, the amount FDIC plans to disallow must be included in management's response.

If management does not agree that a recommendation should be implemented, it must describe why the recommendation is not considered valid.

Second, the OIG must determine that management's descriptions of (1) the course of action already taken or proposed and (2) the documentation confirming completion of corrective actions are responsive to its recommendations.

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management's written response to our report and subsequent discussions with management representatives.

Rec. Number	Corrective Action: Taken or Planned / Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	The Associate Director, Acquisition and Corporate Services Branch, agreed with the recommendation and stated that, in conjunction with the Division of Legal Services, the Division of Administration would review the circumstances surrounding this overpayment and take appropriate measures to resolve the questioned costs.	3/31/00	Settlement agreement.	$1,785,788	Yes
2	The Associate Director, Acquisition and Corporate Services Branch, agreed with the recommendation and stated that, in conjunction with the Division of Legal Services, the Division of Administration would review the circumstances surrounding this overpayment and take appropriate measures to resolve the questioned costs.	3/31/00	Settlement agreement.	$818,312	Yes

GLOSSARY

Comfort (agreed-upon-procedures) letter

A comfort or agreed-upon-procedures letter describes the sources of data and outlines each of the major steps performed in the due diligence process.

Deficiency cure

A deficiency cure identifies correctable document deficiencies and performs a cost/benefit analysis of alternatives to determine the recommended course of action to be taken. As directed by the RTC, a deficiency cure also corrects the curable deficiencies.

Due diligence loan review

A due diligence loan review provides information for evaluating individual loans included in a sale and marketing the resulting loan portfolio. A due diligence loan review accumulates large quantities of statistical data, which are used to group the loans and facilitate their sale.

Securitized transaction

A securitized transaction is a pool of mortgage loans secured by real estate to be used as collateral for publicly traded or privately placed securities.

Underwriter

An underwriter contracts to market and sell securities in a securitized transaction.