AUDIT OF LEGAL FEES PAID TO ADORNO & ZEDER, P.A.

Audit Report No. 99-034
August 12, 1999

OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

Material has been redacted from this document to protect personal privacy, confidential or privileged information.

FDIC
Federal Deposit Insurance Corporation
Washington, D.C. 20434

Office of Audits
Office of Inspector General

DATE: August 12, 1999

MEMORANDUM TO: James T. Lantelme
Assistant General Counsel
Legal Operations Section
Legal Division

FROM: Steven A. Switzer
Deputy Inspector General

SUBJECT: *Audit of Legal Fees Paid to Adorno & Zeder, P.A.*
(Audit Report No. 99-034)

This report presents the results of an audit of fees paid to Adorno & Zeder, P.A., a law firm hired by the FDIC to provide legal services. The independent public accounting firm of Mir-Fox & Rodriguez conducted the audit. The objective of the audit was to determine whether the law firm's legal bills were: (1) adequately supported by source documentation, (2) prepared in accordance with applicable agreements, and (3) representative of the cost of services and litigation that had been approved in advance by the Legal Division. The audit covered all payments to Adorno & Zeder, P.A., from January 1, 1998 through December 31, 1998, which included 92 fee bills totaling $1,139,853.

The Legal Division provided a written response on July 21, 1999 (see Appendix II) to a draft of this report that furnished the requisites for a management decision on each of the recommendations. In its response, the Legal Division agreed to disallow questioned costs totaling $41,732. The OIG's evaluation of management's comments is presented in Appendix I.

If you have any questions, please call me at (202) 416-2543 or Allan H. Sherman, Deputy Assistant Inspector General, at (202) 416-2522.

MIR•FOX & RODRIGUEZ, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

One Riverway, Suite 1900
Houston, TX 77056
(713) 622-1120
(713) 961-0625 Fax

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Office of the Inspector General
Federal Deposit Insurance Corporation:

We have performed the procedures (Procedures) enumerated in the Appendix, which were agreed to by the Office of the Inspector General (OIG), Federal Deposit Insurance Corporation (FDIC), solely to assist OIG in determining whether the fee bills submitted by Adorno & Zeder, P.A. and paid by the FDIC from January 1, 1998 through December 31, 1998, were adequately supported, consistent with the terms and conditions of the governing agreements and were representative of the cost of services and litigation which was approved in advance. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and with applicable Government Auditing Standards. The sufficiency of these Procedures is solely the responsibility of the specified users of the report.

Consequently, we make no representations regarding the sufficiency of the Procedures described in the Appendix either for the purpose for which this report has been requested or for any other purpose.

The Procedures and Findings of this engagement are included in the accompanying pages 2 through 5 of this report.

We were not engaged to, and did not, perform an examination, with the objective of expressing an opinion on whether the fee bills present fairly the expenses and activities of the cases for which they were submitted. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of OIG and FDIC, and should not be used by those who have not agreed to the Procedures and taken responsibility for the sufficiency of the Procedures for their purposes.

Mir Fox & Rodriguez

March 12, 1999
Houston, Texas

ADORNO & ZEDER, P.A.
MIAMI, FLORIDA

BACKGROUND

The FDIC incurs legal fees when attorneys and law firms are retained to assist the FDIC in litigation and other legal services. The authority and responsibility for the retention of outside counsel, oversight of services rendered, and approval of fee bills resides with the General Counsel and the Legal Division. The OIG performs audits of fee bills, similar to other contract audits, to ensure that such claims are adequately supported and comply with cost limitations set forth by the FDIC.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the engagement was to determine whether the fee bills submitted by the firm were: (1) adequately supported by source documentation, (2) prepared in accordance with the applicable agreements, and (3) representative of the cost of services and litigation which was approved in advance by the Legal Division. The engagement scope covered all FDIC payments made to the firm from January 1, 1998 through December 31, 1998, which included 92 fee bills totaling $1,139,853.

Fieldwork included interviews and tests of transactions in the law offices of Adorno & Zeder, P.A. in Miami, Florida. The engagement was conducted in accordance with standards established by the American Institute of Certified Public Accountants and with applicable Government Auditing Standards and, thus, included such tests of the accounting records and other procedures that we considered necessary under the circumstances. We obtained an understanding of the internal control structure related to the firm's billing process. With respect to the internal control structure, we obtained an understanding of the design of the firm's billing policies and procedures and whether they have been placed in operation. In addition, we reviewed the adequacy of the physical access to the on-line electronic time and billing system, as well as, the related transaction trails. We assessed control risk in order to determine our Procedures and for the purpose of evaluating the fees and expenses billed to the FDIC and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

The fee bills were tested for adequacy of source documentation, compliance with the cost provisions of the agreements in effect, and the appropriateness of the charges. The fee bills were tested for compliance with the FDIC's policies and procedures for submitting fee bills as included in the *Guide for Outside Counsel* and the Legal Services Agreements (LSA's) in effect between the FDIC and the firm.

In order to identify billed amounts disallowed by the Legal Division prior to our engagement, we compared the amounts billed by the firm to the amounts paid by the FDIC. We have adjusted the questioned costs in our report for costs previously disallowed to preclude duplication.

The Procedures tested covered relevant source documents supporting legal fee bills. The sampled fee bills were reviewed in terms of two major components: fees for professional services (charges based on hourly rates) and claims for reimbursable expenses such as telephone and courier services. A preliminary exit conference was held with Adorno & Zeder, P.A. representatives to discuss the preliminary conditions at the end of on-site fieldwork.

RESULTS OF AUDIT

We concluded that except for $41,937 in fees and expenses detailed in the Findings and Recommendations section of this report , the invoices submitted by Adorno & Zeder, and paid by the FDIC from January 1, 1998 through December 31, 1998, were supported by source documentation, prepared in accordance with applicable agreements, and were representative of the cost of services and litigation which was approved in advance by the Legal Division.

The questioned fee amount relates to unapplied receipts/duplicate payments and unauthorized hourly rates. In addition, we are questioning claims for reimbursable expenses in the amount of $5,251. The expenses questioned consist of unsupported database charges, excess long distance telephone charges and unsupported courier charges.

Summary of Questioned Costs		
Description	Finding Number	Questioned Costs
Unapplied Receipts/Duplicate Payments	1	$ 36,030
Unauthorized Hourly Rates	2	656
Subtotal Fees		36,686
Unsupported Database Charges	3	4,018
Excess Long Distance Telephone Charges	4	1,028
Unsupported Courier Charges	5	205
Subtotal Expenses		5,251
Total Fees and Expenses		$ 41,937

FINDINGS AND RECOMMENDATIONS

Unapplied Receipts/Duplicate Payments

Adorno & Zeder, P.A. received payments from the FDIC totaling $36,030 that remained on the firm's books as “Unapplied Retainer Balances.” Most of the unapplied receipts and duplicate payments occurred during the period 1992 through 1997 and have remained on the firm's books. During the audit, we were informed by the firm that they intend to return these amounts to the FDIC.

Recommendation 1:

The Assistant General Counsel, Legal Operations Section, should ensure that the firm returns the unapplied retainers in the amount of $36,030 to the FDIC.

Unauthorized Hourly Rates

Adorno & Zeder, P.A. billed the FDIC at hourly rates that exceeded those agreed to in the FDIC Legal Services Agreement(s) or the Amendments thereto (collectively the LSA). Outside counsel must provide legal services in accordance with the hourly rate structure set forth in the schedules attached to the LSA. Hourly rates were found on an invoice dated August 8, 1998 which exceeded the authorized rate by an amount of $10 per hour. As a result, a total of $656 was billed in excess of the authorized hourly rates.

Recommendation 2:

The Assistant General Counsel, Legal Operations Section, should disallow in $656 for unauthorized hourly rates.

Unsupported Database Charges

Adorno & Zeder, P.A. was unable to provide adequate documentation to support their costs related to the $1.25 per minute charged to the FDIC for performing research on their internal database. FDIC agreements and cost guidelines require that the internal database charges represent actual costs. The firm billed the FDIC a total of $4,018 for internal database charges which are unsupported.

Recommendation 3:

The Assistant General Counsel, Legal Operations Section, should disallow $4,018 for unsupported database charges.

Excess Long Distance Telephone Charges

Adorno & Zeder, P.A. billed long distance telephone charges in excess of actual cost. FDIC agreements and cost guidelines require that long distance charges represent actual costs. Our analysis of long distance telephone charges included the selection of a representative sample of invoices paid by the firm. We compared the amounts paid by the firm to amounts billed to the FDIC. Based on our analysis, we determined that the firm charged an additional 341percent, on average, for each long distance call invoiced to the FDIC. Subsequently, we identified all of the long distance calls billed by the firm and paid by the FDIC during the period January 1, 1998 through December 31, 1998 and determined that a total of $1,028 was billed in excess of cost regarding long distance telephone charges.

Recommendation 4:

The Assistant General Counsel, Legal Operations Section, should disallow $1,028 for excess long distance telephone charges.

Unsupported Courier Charges

Adorno & Zeder, P.A. was unable to provide documentation relating to the costs associated with their courier services that were charged to the FDIC. The Guide suggests that there be adequate supporting documentation for the charges.

Recommendation 5:

The Assistant General Counsel, Legal Operations Section, should disallow $205 for unsupported courier charges.

ADORNO & ZEDER, P.A.
MIAMI, FLORIDA

PROCEDURES

Preliminary Field Work

1. Obtained a listing of the population of legal fee invoices to be reviewed for FDIC payments from January 1, 1998 through December 31, 1998 (the "Scope").

2. Obtained and reviewed copies of the FDIC Legal Services Agreements issued to the firm for the period of January 1, 1998 through December 31, 1998, as well as, the firm's responses to the FDIC law firm questionnaire.

3. Requested a summary of the firm's usage of the FDIC Legal Research Bank (LRB), including the matters referenced.

4. Obtained annotated copies of legal fee invoices from the FDIC, showing exceptions taken to firm's bills by case managing attorneys and fee bill review technicians.

5. Obtained a completed management representation letter from the firm.

Evaluation of Electronic Billing System

6. Determined that the firm had received the FDIC Legal Division's letter regarding special requirements dated December 31, 1997.

7. Determined that the firm's computer system had a complete transaction trail through the Scope of the audit.

8. Documented the controls pertaining to the computer system including assignment of unique user passwords, access to each application, access to the on-line information and on-line approval codes. Documented that the system was functioning as designed.

Evaluation of Fitness and Integrity

9. Determined whether the firm requested and/or received any conditional waiver of a conflict of interest from OIG/FDIC.

10. Reviewed the firm's malpractice insurance policy to determine the extent and duration of the firm's coverage.

Review of Fees Paid

11. For the sample of 92 FDIC invoices (the Sample) selected by FDIC, we performed quantitative test work and validated the mathematical accuracy of the Sample.

12. Compared the names and billing rates used on all sampled invoices with the names and rates indicated on the LSA.

13. Selected a sample of attorneys who had devoted substantial time to FDIC related matters.

14. For the attorneys selected in the sample, reviewed timesheets for mathematical accuracy and scheduled total hours on a daily basis for one billing month. Reviewed schedules for reasonableness and obtained explanations for unusual entries.

Appendix, Continued

ADORNO & ZEDER, P.A.
MIAMI, FLORIDA

PROCEDURES

15. Determined the firm's standard billing rates and compared them to the rates billed on the invoices in the sample.

16. Reviewed timesheets for selected sample of invoices to determine if there had been any inefficiency indicated by excessive staff rotation on the projects.

17. Reviewed timesheets for selected sample of invoices to determine if there had been excessive research time, and to determine if the firm had used the FDIC's "Research Bank."

18. Reviewed selected sample of invoices for extent of use of paralegals and summer help.

19. Reviewed timesheets and selected sample of invoices to determine the firm's billing policy on time spent for:

    - preparation of invoices,
    - traveling,
    - researching the firm's own conflicts of interest, and
    - preparation of plans, budgets and status reports.

20. Reviewed a sample of deposition transcripts for:

    - amount of time spent and charged by the court reporters and the attorneys, and
    - unauthorized multiple attorneys who attended the depositions.

<u>Review of Expenses Paid</u>

21. For the Sample of invoices selected by the FDIC-OIG, performed an analysis of expenses charged; validated the mathematical accuracy of all invoices in the Sample and determined the percentage of the total expenses charged for each expense category.

22. Compared amounts billed for expenses charged to amounts paid by the firm to outside contractors to determine if billing had occurred at cost for the following categories:

    - document reproduction charges,
    - outside database services,
    - deposition transcripts, hearing transcripts, court fees and filing fees, and
    - expert witness and consultant fees.

23. Evaluated the adequacy of supporting documentation for document reproduction charges, as well as the reasonableness of the quantities billed.

24. Verified that expenses billed were related to FDIC matters.

25. Examined expense charges to determine whether charges for outside database services were:

    - in compliance with the LSA and FDIC guidelines,
    - related to the applicable FDIC matters, and
    - adequately documented.

<u>Other</u>

26. Reviewed payments received from FDIC to determine whether any duplicate payments had been received by the firm.

27. Reviewed billing periods on invoices to determine whether the firm had double-billed FDIC for overlapping billing periods.

MANAGEMENT COMMENTS AND OIG EVALUATION

On July 21, 1999, the General Counsel provided a written response to the draft report. The response is presented in Appendix II to this report.

The Legal Division will disallow all the questioned costs in recommendations 1, 2, and 3, and 4 totaling $36,030 for unapplied retainers, $656 for unauthorized hourly rates, $$4,018 for unsupported database charges, and $1,028 for excess long distance charges. The Legal Division will not disallow $205 for unsupported courier charges because the firm provided its log for in-house couriers as documentation to support the billings for courier services. We will continue to question the $205 for unsupported courier charges. The *Guide for Outside Counsel* states that outside counsel are required to retain copies of all FDIC-related bills and original underlying support documentation. The firm was unable to provide adequate documentation relating to the costs associated with the courier services that were charged to the FDIC.

Appendix III presents management's proposed action on our recommendations and shows that there is a management decision for each recommendation in this report. After considering information provided by the firm and management's response to the draft report, we will report questioned costs of $41,937 (including unsupported costs of $4,223) in our *Semiannual Report to the Congress*.

FDIC

Federal Deposit Insurance Corporation
Washington, D.C. 20429

APPENDIX II

Legal Division

July 21, 1999

MEMORANDUM TO: David H. Loewenstein
Assistant Inspector General
Office of Inspector General

THROUGH: William F. Kroener, III
General Counsel

William S. Jones
Supervisory Counsel
Legal Services Unit

FROM: Paul A. Mitchell
Counsel
Legal Services Unit

SUBJECT: Legal Division's Response to the FDIC Inspector General's Audit of Adorno & Zedar (Miami. Florida)

This memorandum constitutes the Legal Division's response to the FDIC's Office of Inspector General's ("OIG") draft audit report, dated May 26, 1999, *Legal Fees Paid to Adorno & Zeder, P.A.* ("Report"). The OIG Report, with exhibits, is included herein as Exhibit A. The Firm's letter, dated June 4, 1999, to Allan H. Sherman, which constitutes the Firm's response ("Response"), is included herein as Exhibit B. (Due to their voluminous nature, the exhibits included with the Firm's Response are not included herein.)

The Report pertains to legal services performed on behalf of the FDIC and was a result of audit work conducted at the Firm's offices in Miami, Florida. In all, the Report questions \$41,937 of the \$1,139,853 paid to the Firm as a result of 92 fee bills submitted to the FDIC from January 1, 1998 through December 31, 1998. **In response to OIG's Report and the Firm's Response, the Legal Division will disallow \$41,732.**

The Legal Division's position regarding each audit finding is explained below in the same order in which it appears in the Report. For ease of reference, the Report's recommendations are indented and have been placed in bold type.

<u>Recommendation No. 1</u>: That the FDIC should ensure that the Firm returns unapplied receipts and duplicate payments in the amount of $36,030 to the FDIC.

The Report recommends that the FDIC should ensure that the Firm returns $36,030 in unapplied receipts and duplicate payments. According to the Report, most of the unapplied receipts and duplicate payments occurred during the period from 1992 through 1997 and have remained on the Firm's books since that time. Evidently, the payments are listed on the Firm's books as "Unapplied Retainer Balances."

In its Response, the Firm admits that it received payments (including duplicate payments and overpayments) from the FDIC totaling $36,030, which remain on its books as "Unapplied Retainer Balances." According to the Firm, it always had the intention to reconcile with the FDIC amounts that have been disallowed or that remain unpaid from its fee bills, and once those amounts had been reconciled, to return funds that could not be applied to the disallowed or unpaid amounts. The Firm contends that it made efforts to contact or approach FDIC representatives to discuss the issue, but staffing changes made as a result of the termination of the RTC prevented any such discussions. The Firm also points out that a total of $46,308.34 of billings were disallowed by the FDIC oversight attorneys during the audit period and a total of $9,459.85 in fee bills that relate to invoices older than January 31, 1999 still remain unpaid. The Firm asks that any solution to the question of the unapplied receipts include a reconciliation of the disallowed amounts and the unpaid fee bills.

Evidently, there is no dispute that the amounts carried on the Firm's books as "Unapplied Retainer Balances" represent duplicate payments and overpayments made to the Firm. In fact, in its Response, the Firm expressly admits that it did indeed receive the payments and that it continues to carry them on its books. The Firm's response on this issue is limited mostly to a request that any solutions to this issue include a reconciliation of disallowed amounts and unpaid fee bills. **Accordingly, given that the Firm admits that the amounts in question represent duplicate payments and overpayments, the Legal Division will disallow $36,030.**

<u>Recommendation No. 2</u>: That the FDIC should disallow $656 for unauthorized hourly rates.

The Report recommends that the FDIC disallow a total of $656 for billings that exceeded the hourly rates agreed to in the Legal Services Agreement ("LSA"). According to the Report, billings were included on one invoice, dated August 8, 1998, that exceeded the authorized hourly rate by an amount of $10 per hour, thereby resulting in the overcharge.

In its Response, the Firm points out that the Report's supporting exhibit (Exhibit 2) shows a total of only $391 in excess hourly rates. However, the Firm does not clearly state whether it believes that the lesser amount is correct or incorrect.

In considering this Recommendation, the Legal Division reviewed the auditor's work papers and found that the supporting exhibit that was originally sent to the Firm contained a typographical error. The OIG provided a corrected exhibit, which showed an overcharge of $656 by one attorney on one invoice as was stated in the narrative. In addition, the Legal Division reviewed the Firm's LSA and the invoice involved (Invoice [material redacted]) and found that the OIG is correct in its contention that one of the Firm's attorney had overcharged on that invoice. Specifically, a review of Invoice [material redacted] showed that the attorney ([material redacted]) had billed at rate of $120 per hour while a review of the Firm's LSA indicated that the attorney should have billed at a rate of $110 per hour. (A copy of the corrected exhibit along with pertinate portions of the Firm's LSA and Invoice [material redacted] are attached as Exhibit C.) **Accordingly, given that a review of the invoice and the LSA shows that the OIG is correct with regard to the overcharge by the one attorney, the Legal Division will disallow $656.**

> **<u>Recommendation No. 3</u>: That the FDIC should disallow $4,018 for unsupported database charges**.

The Report recommends that the FDIC disallow a total of $4,018 for database charges that were unsupported by adequate documentation. According to the Report, FDIC guidelines require that internal data base charges represent actual costs. However, the Firm charged $1.25 per minute for performing research on its internal database, but was unable to provide an adequate cost-study to support that amount.

In its Response, the Firm concedes that at the time of the audit it did not provide adequate justification to support the $1.25 per minute charge that was billed to the FDIC for performing research on its internal research database. However, the Firm goes on to state that the $1.25 per minute charge was based on an "ad hoc" analysis of invoices received for research performed on the commercial service Westlaw. According to the Firm, if it had used Westlaw on-line research instead of its own internal database, the charges would have ranged from $2.29 per minute to $5.38 per minute. In support of its position, the Firm provides its calculation of average Westlaw charges along with exhibits of typical Westlaw invoices. The Firm believes that the $1.25 per minute charge is reasonable, particularly in view of the savings realized compared to using Westlaw.

After considering this Recommendation, the Legal Division believes that the use of an internal database system should be considered an administrative expense and, as such, the billings for use of the system should be disallowed. The Legal Division believes that without more information from the Firm justifying the billings, the use of the Firm's internal research database should be considered analogous to use of the Firm's law library, which clearly would be considered an administrative expense under the LSA and FDIC's billing policies and procedures. **Accordingly, the Legal Division agrees with Recommendation No. 2, and a disallowance of $4,018 will be taken.**

> **<u>Recommendation No. 4</u>: That the FDIC should disallow $1,028 for excess long distance telephone charges.**

The Report recommends that the FDIC disallow $1,028 for long distance telephone calls that were billed to the FDIC in excess of actual cost. According to the Report, the auditors were able to determine that the Firm charged an additional 341 percent, on average, for each long distance telephone call billed to the FDIC. After identifying all of the long distance telephone calls billed to the FDIC from January 1, 1998 through December 31, 1998, the auditors used the 341 percent figure to determine that the FDIC had been overcharged a total of $1,028.

In its Response, the Firm first points out an inconsistency between the narrative portion of the Report and its supporting exhibit. The narrative portion of the Report states that the Firm charged an additional 341 percent for long distance phone calls, while the supporting exhibit indicates a mark-up factor of 4.413. As for its long distance charges, the Firm states that the charges were based on the Equitrac cost recovery system for long distance telephone calls. According to the Firm, Equitrac is a recognized vendor used by a large number of law firms that provides a database that is based on common long distance rates. The Firm states that the FDIC was billed according to the rates in the Equitrac database without any markup or surcharge. The Firm admits that the rates in the Equitrac database do not reflect any discounts that the actual long distance carriers may have provided, which it admits results in a cost savings for the Firm. However, the Firm states that the savings that it realizes is used to subsidize the cost the equipment and maintenance of its telephone service.

In considering this Recommendation, the Legal Division reviewed the auditor's work papers and found that the OIG is correct in its contention that the billings for long distance phone calls were, on the average, marked-up an additional 341 percent over the Firm's actual cost. The review of the work papers indicated that the auditors obtained the 341 percent mark-up figure by comparing the Firm's actual long distance bills (from the WorldCom telephone service) to the charges based on the Equitrac system. For example, using the Equitrac system, on Invoice [material redacted] the FDIC was billed $2.67 for a phone call for which the Firm was billed $1.00 by WorldCom. Likewise, on Invoice [material redacted], the FDIC was billed $20.40 for a phone call for which the Firm was billed $4.76. Using a sample of the long distance billings, the auditors compared the Equitrac billings to the WorldCom billings actually paid by the Firm and were able to calculate the 341 percent average mark-up. (The auditors' calculations as contained in the workpapers are attached as Exhibit D and show an exact percentage of 441.32 percent.) [1]

Accordingly, for the reasons stated above, the Legal Division agrees with Recommendation No. 4 and will disallow $1,028.

<u>Recommendation No. 5</u>: That the FDIC should disallow $205 for unsupported courier charges.

The Report recommends that the FDIC disallow $205 for unsupported courier charges. According to the Report, FDIC guidelines require a firm to provide documentation supporting the cost of services provided by third parties such as courier services. However, during the audit, the Firm did not provide any documentation related to the billings for courier services.

[1] As for the supposed inconsistency between the 4.413 figure used in the exhibit and the 341 percent figure used in the narrative, the 341 percent figure is obtained by subtracting 100 percent (representing the actual cost of the phone call) from the average of 441.32 percent as calculated by the auditors to obtain the result of a 341.3 percent mark-up over the actual cost of the telephone calls. The 4.41 figure is obtained by dividing the 441.32 percent figure by 100 in order to reduce it to a multiplier.

In its Response, the Firm admits that it did not provide documentation related to the questioned billings for the courier services. According to the Firm, the questioned billings involved courier services provided by the Firm's in-house couriers. The Firm states that whenever it uses its in-house couriers it charges a flat rate of $5.00 per trip, which it bills from a log, not an invoice. The Firm goes on to state that the use of in-house couriers provided a cost-savings to the FDIC due to the fact that commercial courier services are generally more expensive. To support its contention of a cost-savings, the Firm attached examples of invoices for commercial courier services in the city of Miami, which showed charges ranging from $6.75 to more than $40.00 per trip.

In considering this Recommendation, the Legal Division reviewed a sampling of the invoices with billings for in-house couriers. All of the billings on the invoices reviewed were supported by the Firm's log showing the date of the courier service and the place to which the courier made the delivery. (A portion of a sample invoice with the supporting log entries is attached as Exhibit D.) Given that the Firm provided its log for in-house couriers as documentation to support the billings for courier services, the Legal Division believes that the billings should be allowed. **As such, the Legal Division disagrees with Recommendation No. 5, and no disallowance will be taken.**

Conclusion: The Legal Division will pursue a recovery of $41,732, as summarized below. A demand letter will be sent to the Firm at such time as the audit report is finalized.

Recommendations and Questioned Costs	**Disallowance**
Recommendation No. 1: Unapplied Receipts/ Duplicate Payments - $36,030	$36,030
Recommendation No. 2: Unauthorized Hourly Rates - $656	$656
Recommendation No. 3: Unsupported Database Charges - $4,018	$4,018
Recommendation No. 4: Excess Long distance Telephone Charges - $1,028	$1,028
Recommendation No. 5: Unsupported Courier Charges - $205	- 0 -
TOTAL:	$41,732

The Assistant General Counsel is authorized to make such minor accounting corrections as may be recommended by the OIG, but which do not affect the substantive positions stated in this memorandum. Completion of all corrective actions is anticipated within 90 days of the issuance of the final audit report by the OIG.

Exhibits:

A - OIG Draft Audit Report (with exhibits)
B - Firm's Response to draft Audit Report (without exhibits)
C - Corrected copy of Exhibit 2 to Draft Audit Report with
    Portion of Invoice [material redacted] and the Firm's LSA
D - Auditors' Workpapers re mark-up for long-distance telephone calls
E - Portion of Invoice [material redacted] with documentation for in-house couriers

MANAGEMENT RESPONSES TO RECOMMENDATIONS

The Inspector General Act of 1978, as amended, requires the OIG to report 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.

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 Assistant General Counsel, Legal Operations Section, disallowed $36,030 for unapplied receipts/duplicate payments.	90 days from issuance of Final Audit Report	Law Firm Refund Check	$36,030 disallowed costs	Yes
2	The Assistant General Counsel, Legal Operations Section, disallowed $656 for unauthorized hourly rates.	90 days from issuance of Final Audit Report	Law Firm Refund Check	$656 disallowed costs	Yes
3	The Assistant General Counsel, Legal Operations Section, disallowed $4,018 for unsupported database charges.	90 days from issuance of Final Audit Report	Law Firm Refund Check	$4,018 disallowed costs	
4	The Assistant General Counsel, Legal Operations Section, disallowed $1,028 for excess long distance telephone charges.	90 days from issuance of Final Audit Report	Law Firm Refund Check	$1,028 disallowed costs	
5	The Assistant General Counsel, Legal Operations Section, disallowed $205 for unsupported courier charges.	90 days from issuance of Final Audit Report	Law Firm Refund Check	$205 disallowed costs	Yes