Office of Inspector General

March 1, 2005
Report No. 05-009

DRR's Internal Loan Servicing

AUDIT REPORT

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Purpose of Audit

When an FDIC-insured institution fails or is closed by a federal or state regulatory agency, the FDIC is appointed as receiver. To fulfill the FDIC's responsibilities to creditors of the failed institution, the Division of Resolutions and Receiverships (DRR) manages and sells the receivership's assets through a variety of strategies and identifies and collects monies due to the receivership. One aspect of DRR's management of receivership assets is servicing loans that are retained by the FDIC for management and disposition. Loans are assigned to account officers in DRR's Asset Management Section for management until the loans are resolved and dispositioned.

As of August 31, 2004, the FDIC had an inventory of 273 receivership loans with a total book value of $119 million.

The objective of the audit was to determine whether DRR is adequately and efficiently managing and processing internally serviced loans.

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Report No. 05-009
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Results of Audit

We found that the DRR has an adequate management control process to ensure that funds from internally serviced loans and related transactions are properly reported and credited to the FDIC. DRR generally disposed of internally serviced receivership loans in an efficient manner after the closure of four financial institutions in 2004. However, 11 of 26 low-value non-performing loans in our sample were not being managed in an efficient manner, and some asset files had not been created and maintained in accordance with DRR policies and instructions. We also identified 43 other low-value loans that were not being efficiently managed. Therefore, a total of 54 loans that we reviewed, with a total book value of $1.9 million, have remained in the FDIC's asset inventory for 2 years without significant progress towards disposition. The inefficiencies are generally related to the fact that account officers responsible for the loans in our audit sample had been detailed or were otherwise not able to actively work assigned loans for an extended period.

Recommendation and Management Response

The report recommends that the Director, DRR, require a prompt supervisory review for internally serviced receivership loans assigned to account officers who are detailed or otherwise unable to manage their loan portfolios to ensure that (1) loans are being actively managed, (2) a cost-effective disposition strategy is being used, and (3) asset files are being created and maintained in accordance with DRR policies and instructions.

FDIC management generally agreed with the recommendation and has taken or planned actions to address it.

Sampled Loans Not Yet Dispositioned as of December 31, 2004

Receivership	Number of Loans Identified	Total Book Value
Oakwood	45	$ 905,773
CBC	7	954,178
Superior	1	10,029
Hamilton	1	19,663
Totals	**54**	**$1,889,643**

Source: DRR Asset Loan Files.

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Federal Deposit Insurance Corporation
801 17th Street NW, Washington, DC 20434

Office of Audits
Office of Inspector General

DATE: March 1, 2005

MEMORANDUM TO: Mitchell L. Glassman, Director
Division of Resolutions and Receiverships

FROM: Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]
Assistant Inspector General for Audits

SUBJECT: *DRR's Internal Loan Servicing*
(Report No. 05-009)

This report presents the results of the Federal Deposit Insurance Corporation (FDIC) Office of Inspector General's (OIG) audit of the Division of Resolutions and Receiverships' (DRR) internal loan servicing. Internal loan servicing involves both financial processing and loan management and is discussed in detail below. The objective of this audit was to determine whether DRR is adequately and efficiently managing and processing internally serviced loans. Additional details on our objective, scope, and methodology are in Appendix I.

BACKGROUND

When an FDIC-insured institution fails or is closed by a federal or state regulatory agency, the FDIC is appointed as receiver.[1] To fulfill the FDIC's responsibilities to creditors of the failed institution, DRR manages and sells the receivership's assets through a variety of strategies and identifies and collects monies due to the receivership. One aspect of DRR's management of receivership assets is servicing loans that are retained by the FDIC and not assigned to contractors for management and disposition. DRR uses the National Processing System (NPS) to record transactions and activity for these internally serviced loans.

Internal loan servicing involves two processes – financial processing and loan management. Financial processing encompasses activities associated with receiving and controlling monetary items from all liquidation sources until the items are deposited in the correct account or forwarded to the appropriate recipient. DRR's Financial Processing Unit (FPU), in the Dallas Regional Office, records loan receipt and related transactions in the FDIC's general ledger. The procedures and internal control objectives for financial processing are included in the FDIC's *Field Financial Operations Accounting Manual*. The loan management process involves activities associated with implementing an asset disposition strategy that obtains the maximum recovery value for a loan. These activities are performed by DRR's Asset Management Section, which is also in the Dallas Regional Office. Policies, procedures, and guidelines for asset management are contained

[1] The FDIC acts as a receiver for failed insured depository institutions. As receiver, FDIC is charged with winding up the affairs of failed institutions, including the liquidation of failed institutions and the disposition of their assets.

in DRR's *Asset Disposition Manual* (ADM). As of October 31, 2004, the FPU had processed 5,363 monetary items totaling about $263 million since the beginning of the calendar year.

As of August 31, 2004, the FDIC's NPS included an inventory of 273 receivership loans with a total book value of $119 million. Loans are assigned to account officers in DRR's Asset Management Section to be managed until the loan is resolved and dispositioned.[2] Table 1 below summarizes the FDIC's internally serviced receivership loan inventory.

Table 1: The FDIC's Internally Serviced Receivership Loan Inventory as of August 31, 2004

Status	Loan Type	Number of Loans	Total Book Value*
Performing	Installment	4	$ 61,159
	Commercial	22	6,879,179
	Mortgage	10	2,254,118
Total Performing		**36**	**9,194,456**
Non-Performing	Installment	41	458,102
	Commercial	156	102,096,203
	Mortgage	39	7,414,833
	Student	1	1,222
Total Non-Performing		**237**	**109,970,360**
Total Loans		**273**	**$119,164,816**

Source: The FDIC's NPS.
* Book value is the value of the loan on the balance sheet, i.e., the outstanding principal balance. Book value does not represent the value of the collateral or market value of the loan.

Account officers' responsibilities include contacting and negotiating with the debtor, identifying and valuing loan collateral, updating asset tracking systems, managing escrow accounts for taxes and insurance, initiating and conducting collection and/or foreclosure efforts on delinquent loans, and maintaining asset files that contain documentation on loan management activity. Account officers use the Credit Notation System (CNS), an on-line database, to record significant loan actions, including a supervisory review of the account officer's loan portfolio(s), if the review is performed, and to update the status of the loans assigned. Additionally, supervisors in DRR's Asset Management Section rely on the information in CNS to monitor activity on the loans assigned to account officers.

RESULTS OF AUDIT

We found that DRR has an adequate management control process to ensure that funds from internally serviced loans and related transactions are properly reported and credited to the FDIC. DRR generally disposed of receivership loans in an efficient manner after the closure of four financial institutions in 2004. We also found, however, 11 of 26 low-value non-performing loans in our sample were not being managed in an efficient manner and that some asset files had not been created and maintained in accordance with the ADM and DRR instructions. We also identified an additional 43 low-value loans that were not being efficiently managed. Therefore, a

[2] That is, the loan can be sold, paid off, foreclosed, written off, etc.

total of 54 loans – the 11 loans in our sample and an additional 43 loans – with a total book value of $1.9 million have remained in the FDIC's asset inventory for 2 years without significant progress towards disposition.

Management of Internally Serviced Loans

DRR's policy, as stated in the ADM, dated March 16, 1999, is to administer and dispose of assets in a manner that returns the maximum net present value for the loan. For each asset type, the ADM includes an asset disposition business plan that outlines DRR's primary asset disposition strategies. The ADM states that account officers should employ these strategies when disposing of assets. Each business plan includes a timeline for the disposition of assets by asset type. The business plan suggests that initiation of foreclosure action and litigation proceedings on severely delinquent loans should occur after a loan is in the FDIC's inventory for 180 days. The FDIC's 2004 Annual Performance Plan for the Receivership Management Program sets a performance goal of marketing 85 percent of a failed institution's marketable assets within 90 days of a financial institution's failure. DRR has set an internal goal of selling 90 percent of the book value of a failed financial institution's marketable assets within 180 days of the institution's closure.

We found that for the four financial institutions that failed during 2004, DRR sold over 90 percent of the 1,326 receivership loans acquired within 180 days after closure of the institutions. The loans had a total value of about $84 million. However, we also found that some loans with low dollar values had not been efficiently managed.

To evaluate whether internally serviced loans were adequately and efficiently managed, we selected a random sample of 31 loans from the NPS inventory for review. The inventory consisted of 237 non-performing loans and 36 performing loans. Performing loans are generally maintained until any impediment to selling the loan is resolved and it can be sold. Impediments to selling performing loans include documentation problems with the loan file, investigative matters, bankruptcy, or litigation. Management of non-performing loans involves working to resolve impediments to selling the loans, contacting borrowers to determine why the loan is non-performing, and implementing an asset disposition strategy to either make the loan performing or foreclose on the related collateral to obtain the best monetary recovery available for the loan.

Of the 31 loans in our sample, 26 were non-performing loans and 5 were performing loans. For each loan, we obtained the asset file to determine whether it had been created in accordance with the ADM, whether the file contained evidence that the loan was managed in a timely manner, the reason the loan had not been sold, and whether actions were in process to attempt to make the loan marketable. For example, if the loan had not been sold due to documentation deficiencies, we reviewed the files for evidence that actions had been taken to resolve the deficiencies so the loan could be sold. If information on the loan indicated that it was uncollectible, we conducted additional audit procedures to determine why the loan had not been written off (dispositioned). Details on our sample results are in Appendix II.

Our review indicated that the five performing loans in our sample were adequately and efficiently managed and that actions were being taken in a timely manner to make the loans marketable. We also found that of the 26 non-performing loans in our sample, 15 loans with the highest values in our sample were managed adequately and efficiently. However, the remaining

11 loans that had the lowest values could have been managed in a more efficient manner. The loans, listed in Table 2, were acquired over 2 years ago, and there has been no significant progress towards dispositioning them.

Table 2: Loans in Our Audit Sample

Loan Type	Receivership	Date of Bank Failure	Book Value
Installment	Oakwood	02-01-2002	$14,246.17
Installment	Oakwood	02-01-2002	1,236.81
Installment	Oakwood	02-01-2002	7,543.26
Installment	Oakwood	02-01-2002	2,000.00
Commercial	Oakwood	02-01-2002	11,311.50
Mortgage	Oakwood	02-01-2002	7,355.94
Mortgage	Oakwood	02-01-2002	22,747.67
Mortgage	Oakwood	02-01-2002	19,319.34
Commercial	Connecticut Bank of Commerce	06-26-2002	$37,937.98
Installment	Superior	07-27-2001	$10,029.67
Commercial	Hamilton	01-11-2002	$19,662.64

These loans are discussed in detail in the following sections.

Oakwood Receivership Loans

Eight of the eleven loans in our sample were related to the Oakwood receivership, which was established on February 1, 2002. According to CNS information, these loans were assigned to a DRR account officer in May 2003. They were originally purchased by an assuming bank or another third-party investor in February 2002 but were repurchased by the FDIC in November 2002. The loans were involved in a forensic accounting review from January to May 2003 to determine whether they were connected to fraud perpetrated at the failed bank. The forensic accounting review determined that these loans were not fraudulent, and they were assigned to an account officer. DRR Asset Marketing did not desire to market these loans because they had documentation problems and the balances had not been confirmed. CNS information on the loans showed that loan management activity conducted from May 2003 to January 2004 related only to identification of the debtor and collateral related to the loans. In January 2004, the loans were reassigned to another account officer, who was then assigned to a bank closing and various other assignments until October 2004. As a result, no significant progress has been made to disposition the loans.

During our review of the 8 loans, we identified 37 additional Oakwood receivership loans in the NPS loan inventory that had been assigned to the same account officer and have received little attention since the FDIC repurchased them. The 45 loans in the Oakwood receivership, that is, the 8 loans in our sample and the 37 additional loans in the NPS inventory, have a total book value of $905,773.

DRR informed us that since completion of our audit, a supervisory review was conducted on the account officer's loan portfolio and that 19 of the loans discussed above have now been reassigned to another account officer. Also, since the recent supervisory review, the account officer has taken action to resolve the other 26 loans referred to above.

Connecticut Bank of Commerce Receivership Loans

Our sample included one loan from the Connecticut Bank of Commerce (CBC) receivership, which was established in June 2002. This loan was part of a line of seven loans related to equipment leases with a total book value of $954,178. According to information in CNS, the loan was not assigned to an account officer until April 2003. No promissory note or collateral files had been located by the account officer on the loan as of October 2003, and in February 2004, the account officer determined that it should be written off after completion of some additional research on the line of assets. According to CNS, a supervisory review was conducted in June 2004 on this asset. Overall, as of November 2004, little progress had been made in dispositioning this loan since it was acquired. Part of the reason for the lack of progress on this loan was that the account officer had been detailed to a bank closing and other assignments during the year, which limited his ability to perform research necessary to evaluate the loans. The six other related loans from the CBC failure are in a similar status. The sampled loan and the six additional loans have a total book value of $954,178. DRR informed us in January 2005 that the debtor related to these assets has not been responsive to requests for financial information. At the present time, DRR is attempting to verify the status of these assets and obtain a legal opinion as to the statute of limitations on the equipment leases.

Superior Receivership Loan

One loan in our sample from the Superior receivership had a book value of only $10,029. CNS information showed extensive loan management activity since August 2002, but little progress has been made in dispositioning the loan. The loan was first assigned to an account officer in August 2002 as a result of the failure of Superior Bank. The loan file did not contain a title to the vehicle for the car loan, and the debtor indicated from the outset that he was not going to pay the loan. In January 2003, the loan was reassigned to another account officer who continued working the loan in an attempt to obtain the title for more than a year without success. The CNS contained information on the extent of work by the account officer. However, CNS contained no record of a supervisory review of the management of the loan until November 2003, at which time the Section Chief indicated that the loan should be written off. Nevertheless, as of November 2004, no further progress had been made, and no action had been taken to write off this loan. DRR informed us that the loan was written off in early December 2004.

Hamilton Receivership Loan

One loan in our sample with a book value of $19,663 from the Hamilton receivership was first assigned to an account officer in July 2002. The account officer worked with the debtor for 4 months in an attempt to obtain loan payment. In November 2002, one of the Asset Management Section Chiefs advised the account officer either to include the asset in a bulk sale or to write off the asset. In April 2003, DRR Asset Marketing decided that the loan had no recovery value and, therefore, the loan was not included in a bulk sale. In August 2003, the account officer reported in CNS that the company had closed and that the asset would be written off. As of November 2004, however, no further progress had been made in writing off this loan. Again, DRR informed us that in early December 2004, the loan was written off.

The 11 low-value loans in our sample and the additional 43 loans that have not yet been dispositioned are summarized in Table 3.

Table 3: Sampled Loans Not Yet Dispositioned

Receivership	Number of Loans Identified	Total Book Value
Oakwood	45	$905,773
CBC	7	954,178
Superior	1	10,029
Hamilton	1	19,663
Total	**54**	**$1,889,643**

Maintenance of Asset Files

The ADM requires the account officer to maintain an asset file, separate from the original bank files, that contains all documentation generated after the FDIC acquires a loan. For example, the asset file should contain copies of the promissory note and collateral documentation and all agreements made with the borrowers and results of meetings and telephone conversations, which must be documented in writing. DRR's Internal Review Section issued a *Process Improvement Review* report in April 2004, describing deficiencies in asset file maintenance by DRR account officers. In May 2004, DRR management issued a memorandum to all account officers, providing instructions for the preparation of an organized asset file, which was to be separate from the original bank files. The memorandum states that an asset file should be created for every asset assigned to an account officer.

In October 2004, we requested the asset files for the 31 loans in our sample. We found that for 7 of the 31 loans we reviewed, asset files either had not been created in accordance with the ADM or had not been maintained in accordance with DRR management's instructions. Specifically, the files for five of the loans were not organized in a manner that facilitated locating pertinent documents, and separate asset files were not provided for two of the loans. The May 2004 memorandum to account officers stated that failure to maintain a separate asset file can severely jeopardize collection efforts. Although supervisors meet with DRR account officers to periodically discuss asset disposition strategies, supervisors told us they do not review the account officers' asset files.

Conclusion

Overall, DRR has dispositioned internally serviced receivership loans in an efficient and timely manner. The inefficiencies discussed in this report are generally related to the fact that account officers responsible for the loans in our audit sample had been detailed or were otherwise not able to actively work assigned loans for an extended period. Whenever account officers are detailed or otherwise unable to manage their loan portfolios, prompt supervisory reviews of the account officers' loan portfolios may prevent long periods of inactivity to disposition the loans. A supervisory review of the portfolio at that time to determine whether the loans should be reassigned would ensure that the loans are managed and dispositioned efficiently and that future inefficiencies do not occur. The supervisory review would become even more important when there is a high volume of assets. Further, including a review of asset files during the supervisors' periodic reviews of the account officers' loan portfolios would help to ensure that asset files are maintained in accordance with the ADM and DRR management instructions. In view of DRR's planned reorganization of the asset management function, it is critical to create and properly maintain asset files that may be reassigned to account officers.

Recommendation

We recommend that the Director, DRR, require a prompt supervisory review for internally serviced receivership loans assigned to account officers who are detailed or otherwise unable to manage their loan portfolios to ensure that (1) loans are being actively managed, (2) a cost-effective disposition strategy is being used, and (3) asset files are being created and maintained in accordance with the ADM and DRR management instructions.

CORPORATION COMMENTS AND OIG EVALUATION

DRR management concurred with the recommendation and has taken corrective action. DRR has taken the following steps to implement the OIG's recommendations. First, supervisors have been instructed, in writing, to ensure that every loan asset has been reviewed in the past 90 days. DRR included a copy of the instructions as part of its formal response to our draft report. The supervisors have been reminded of their obligation to ensure that all loans are being actively managed and that a cost-effective disposition strategy is in place. Second, although management has recently circulated a memorandum reminding all account officers of their obligation to create and maintain asset files on each loan relationship, management will again remind all account officers of the DRR requirements regarding asset files. The review of assets and the reminder to account officers will be accomplished by May 31, 2005.

According to DRR, as a result of our audit, most of the assets cited in the preliminary draft audit report have been reassigned to account officers who are not detailed to special projects. Asset Management Branch (AMB) managers will closely monitor performance to ensure efficient disposition of remaining assets. Also, once the new asset servicing environment is finalized, the AMB will revise its internal filing policy to ensure that it provides the efficiencies needed. The proposed new asset servicing environment should reduce the requirement for inordinate amounts of hard copy documentation.

Management's action was responsive to the recommendation. The recommendation is considered resolved but will remain undispositioned and open until we have determined that agreed-to corrective actions have been completed and are effective.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether DRR is adequately and efficiently managing and processing internally serviced loans. DRR's policies and procedures established for activities related to loan servicing are included in the ADM and the FDIC's *Field Financial Operations Accounting Manual*. DRR was in the process of rewriting its ADM during the audit. Our work was based on the policies and procedures established under the ADM dated March 16, 1999. We did not review asset marketing strategies or other activities related to DRR's sale of receivership assets in conjunction with this audit. The audit scope covered the FDIC's receivership loan inventory as of August 31, 2004. As of this date, the FDIC's NPS included 273 loans with a total book value of $119 million. We limited our audit testing to the asset management function because during the survey phase of our audit, we determined that the loan processing function had recently been tested by the U.S. Government Accountability Office (GAO) in conjunction with its work on the FDIC's 2004 financial statement audit. We performed our work from September through December 2004 in accordance with generally accepted government auditing standards.

To accomplish our objectives and to gain an understanding of internal controls, we reviewed the following documents:

- The FDIC's 2004 Annual Performance Plan for the Receivership Management Program;
- DRR 2004 Strategic Plan;
- *DRR Asset Disposition Manual*, dated March 16, 1999;
- *FDIC Field Financial Accounting Manual*, dated October 1996; and
- GAO's "Cycle Memo" (the segments related to the FDIC's receivership receipts process) for the 2004 FDIC financial statement audit.

We interviewed key personnel in DRR's Financial Processing Unit, Asset Management Section and Asset Marketing Section to further identify procedures for internal loan servicing and related activities. We selected a random sample of 31 loans from the FDIC's NPS loan inventory as of August 31, 2004. For each loan selected, we reviewed the asset files for compliance with DRR's ADM and evidence of loan management activity. We determined whether the file was created in accordance with DRR's ADM and whether necessary documents were included in the asset file such as appraisals, financial statements, promissory notes, credit reports, and documentation indicating contact with the debtor. For each loan, we researched the CNS to determine whether the asset was being efficiently managed. We interviewed account officers and supervisors in DRR's Asset Management Section to further determine the status and actions taken regarding the loans in our audit sample.

We contacted GAO staff responsible for conducting testing on the receivership receipts process to determine the extent and results of testing conducted during GAO's audit of the FDIC's financial statements. We also met with DRR Internal Review Specialists to determine the extent and results of testing they had performed related to DRR's asset files. We reviewed DRR's *Internal Review Report on Management and Maintenance of Loan Related Files*, 2004-D-06, dated April 30, 2004, and subsequent memoranda issued to DRR account officers on file maintenance.

APPENDIX II

SUMMARY SCHEDULE OF AUDIT SAMPLE AND EXCEPTIONS REPORTED

Loan Type	Book Value	Receivership	Date of Bank Failure	Efficiently Managed	Asset File Created Per DRR Instructions
Performing Loans					
Installment	$ 11,089	Oakwood	02-01-2002	Yes	Yes
Commercial	1,177,069	Hamilton	01-11-2002	Yes	Yes
Commercial	98,458	Reliance	03-19-2004	Yes	Yes
Commercial	1,462,770	Hamilton	01-11-2004	Yes	Yes
Commercial	367,867	Reliance	03-19-2004	Yes	Yes
Non-Performing Loans					
Installment	$ 14,246*	Oakwood	02-01-2002	No	Yes
Installment	1,237*	Oakwood	02-01-2002	No	Yes
Installment	7,543*	Oakwood	02-01-2002	No	Yes
Installment	2,000*	Oakwood	02-01-2002	No	Yes
Installment	387	Oakwood	02-01-2002	Yes	No
Installment	2,148	Oakwood	02-01-2002	Yes	No
Installment	10,030*	Superior	07-27-2001	No	No
Commercial	390,968	Hartford Carlisle	01-14-2000	Yes	Yes
Commercial	638,800	Hamilton	01-11-2002	Yes	Yes
Commercial	60,000	Hamilton	01-11-2002	Yes	Yes
Commercial	19,663*	Hamilton	01-11-2002	No	No
Commercial	300,000	Oakwood	02-01-2002	Yes	No
Commercial	11,311*	Oakwood	02-01-2002	No	Yes
Commercial	527,188	Net First	03-01-2002	Yes	Yes
Commercial	6,041,763	Connecticut Bank	06-26-2002	Yes	Yes
Commercial	309,172	Connecticut Bank	06-26-2002	Yes	Yes
Commercial	50,000	Blanchardville	05-09-2003	Yes	Yes
Commercial	451,068	Reliance	03-19-2004	Yes	Yes
Commercial	19,636	Reliance	03-19-2004	Yes	Yes
Commercial	37,398*	Connecticut Bank	06-26-2002	No	Yes
Mortgage	7,336*	Oakwood	02-01-2002	No	Yes
Mortgage	22,748*	Oakwood	02-01-2002	No	Yes
Mortgage	19,319*	Oakwood	02-01-2002	No	Yes
Mortgage	103,410	Blanchardville	05-09-2003	Yes	No
Mortgage	267,595	Guaranty	03-12-2004	Yes	Yes
Commercial	27,483	Connecticut Bank	06-26-2002	Yes	No

* These loans are the 11 non-performing loans that could have been managed more efficiently.

CORPORATION COMMENTS

FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429

Office of the Director
Division of Resolutions and Receiverships

February 25, 2005

MEMORANDUM TO: Stephen M. Beard
Deputy Assistant Inspector General for Audits

FROM: Mitchell L. Glassman, Director
Division of Resolutions and Receiverships

[Electronically produced version; original signed by Mitchell L. Glassman]

SUBJECT: OIG Audit of *DRR's Internal Loan Servicing*
(Assignment No. 2004-059)

This memorandum is in response to audit #2004-059 entitled *DRR's Internal Loan Servicing*. This audit focused on $1.9 million of small assets, from a total portfolio of $119 million, and determined that 11 low value non-performing loans in the sample were not being efficiently managed and some asset files had not been created. Further, an additional 43 small loans have remained in the FDIC's inventory for two years without significant progress toward disposition.

Recommendation

The Director, DRR, require a prompt supervisory review for internally serviced receivership loans assigned to account officers who are detailed or otherwise unable to manage their loan portfolios to ensure that (1) loans are being actively managed, (2) a cost-effective disposition strategy is being used, and (3) asset files are being created and maintained in accordance with the ADM and DRR management instructions.

DRR agrees with the findings and has taken the following steps to implement the OIG's recommendations: Although DRR already has in place a requirement that loan assets be reviewed quarterly by the supervisor, as a result of this audit, supervisors have been instructed, in writing (copy attached), to ensure that every loan asset has been reviewed in the past 90 days. The supervisors have been reminded of their obligation to ensure that all loans are being actively managed and that a cost effective disposition strategy is in place. Further, although management has recently circulated a memorandum reminding all account officers of their obligation to create and maintain asset files on each loan relationship, management will again remind all account officers of the DRR requirements regarding asset files. The review of assets and the reminder to account officers will be accomplished by May 31, 2005.

As a result of the audit, most of the assets cited in the preliminary draft audit report have been reassigned to account officers that are not detailed to special projects. Asset Management Branch (AMB) managers will closely monitor performance to ensure efficient disposition of remaining assets. Also, once the new asset servicing environment is finalized, the AMB will revise its internal filing policy to ensure that it provides the efficiencies needed. The proposed new asset servicing environment should reduce the requirement for inordinate amounts of hard copy documentation.

Attachment

cc: Stan Ivie
Gail Patelunas
James Wigand
Gary Holloway
Andrew Basel
Susan Whited
Rick Hoffman
James H. Angel, Jr.
Susan Koepp

MANAGEMENT RESPONSES TO RECOMMENDATIONS

This table presents the management responses that have been made on recommendations in our report and the status of recommendations as of the date of report issuance. The information in this table is based on management's written response to our report.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved[3] : Yes or No	Dispositioned[4] : Yes or No	Open or Closed[5]
1	DRR has instructed supervisors to review every loan asset to ensure that all loans are being actively managed and that a cost effective disposition strategy is in place. Further, DRR management will again remind all account officers of the DRR requirements regarding asset files.	May 31, 2005	N/A	Yes	No	Open

[3] Resolved – (1) Management concurs with the recommendation and the planned corrective action is consistent with the recommendation.
(2) Management does not concur with the recommendation but planned alternative action is acceptable to the OIG.
(3) Management agrees to the OIG monetary benefits or a different amount, or no ($0) amount. Monetary benefits are considered resolved as long as management provides an amount.

[4] Dispositioned – The agreed-upon corrective action must be implemented, determined to be effective, and the actual amounts of monetary benefits achieved through implementation identified. The OIG is responsible for determining whether the documentation provided by management is adequate to disposition the recommendation.

[5] Once the OIG dispositions the recommendation, it can then be closed.