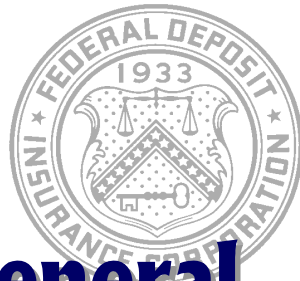


Office of Inspector General



March 23, 2001
Audit Report No. 01-010

**Audit of the FDIC's Timeliness of
Processing Applications for Deposit
Insurance**



DATE: March 23, 2001

TO: Michael J. Zamorski, Acting Director
Division of Supervision



FROM: Sharon M. Smith
Assistant Inspector General

SUBJECT: *Audit of the FDIC's Timeliness of Processing Applications for Deposit Insurance*
(Audit Report No. 01-010)

This report presents the results of an audit of the Federal Deposit Insurance Corporation's (FDIC) timeliness of processing deposit insurance applications for new banks. The Office of Inspector General (OIG) conducted this audit at the request of the Division of Supervision (DOS) to determine whether DOS processed deposit insurance applications consistently for all federal regulators. Generally, we found that the FDIC processed deposit insurance applications consistently regardless of the applicant's primary federal regulator. However, we noted that the FDIC could improve the timeliness of processing deposit insurance applications.

BACKGROUND

The FDIC provides deposit insurance for bank and savings association deposits. An FDIC strategic objective supporting the goal that deposit insurance funds remain viable is to ensure that entry into the system through an application for deposit insurance is consistent with "prudential standards." The FDIC's *Strategic Plan* states that the FDIC should review all applications for entry into and expansion within the banking system for compliance with prudential standards. The plan further states that the FDIC's reviews must be thorough and timely. In addition, the FDIC must establish processing guidelines for addressing statutory factors, appropriately exercising delegated authority, and processing applications on a timely basis. Finally, the FDIC must monitor how well it meets established processing guidelines.

To obtain deposit insurance, a proposed financial institution submits an *Application for Federal Deposit Insurance* to the appropriate DOS regional office. Within the regions, case managers have overall responsibility for processing applications and making recommendations for final action. Once the case manager determines that an application is substantially complete, the application is "accepted" and the DOS processing begins. The case manager begins evaluating the application covering seven statutory factors, including

- financial history and condition of the proposed depository institution,
- adequacy of the institution's capital structure,
- future earnings prospects of the institution,
- general character and fitness of the management of the institution,
- risk presented by the institution to the applicable insurance fund,
- convenience to and needs of the community to be served by the institution, and
- appropriateness of the institution's corporate powers.

The case manager also distributes a copy of the application to the Division of Compliance and Consumer Affairs (DCA) regional office for review and any recommendations regarding consumer protection and fair lending laws and the Community Reinvestment Act.

In addition, the case manager may also request that a DOS bank examiner from the applicable DOS field office evaluate the application and prepare a *Report of Investigation* (ROI). Based on the case manager's evaluation of the application and the ROI, the case manager prepares a *Summary of Investigation* (SOI) with a recommendation for approval or denial. The DOS regional director either approves the application under the regional director's delegated authority by issuing an order for insurance or forwards the application and SOI to the DOS director in headquarters for action. Depending on the structure of the proposed financial institution, the DOS regional office, DOS headquarters, or the FDIC Board of Directors has the delegated authority to approve an application. Only the FDIC Board of Directors can deny an application for deposit insurance.

For deposit insurance applications, the FDIC established a 120-day standard regional processing time. In addition, on October 1, 1998, the FDIC revised its rules and regulations and established a 60-day expedited processing time for deposit insurance applications from qualified institutions. Generally, to receive expedited processing, a proposed new bank has to be a subsidiary of an eligible institution or holding company and the application has to fall within the delegated authority of the regional director. Eligible institutions and holding companies have to be well managed and capitalized according to prior examinations. The FDIC establishes a target date in its Application Tracking System (ATS) based on (1) the date that DOS accepts the application and (2) whether DOS will expedite the application.

From January 1, 2000 through July 31, 2000, the FDIC received 133 new bank applications for deposit insurance. The FDIC accepted 123 of the applications for processing and returned the remaining 10 to the applicants because they were not complete.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether DOS processed deposit insurance applications consistently. To accomplish our objective, we reviewed DOS policies and procedures for processing new bank applications and interviewed DOS personnel from the Atlanta, Georgia; Chicago, Illinois; Kansas City, Missouri; and Washington, D.C. offices. We extracted and analyzed information from ATS and reviewed applications for insurance submitted to the Atlanta, Chicago, and Kansas City offices.

During the survey phase of our audit (from May through July 2000) we reviewed a sample of 14 application files from the Chicago office to determine whether DOS processed its applications in accordance with established policies and procedures and applied those procedures consistently for all applications from all primary federal regulators. The primary federal regulators include the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision (OTS), and the FDIC. We selected the Chicago office because it processed applications involving all primary federal regulators. We also reviewed processing times for all 442 applications that DOS completed nationwide from January 1, 1999 through May 31, 2000. On average, it took 151 days or 31 days longer than the 120-day time frame established by the FDIC for processing deposit insurance applications.

The FDIC's year 2000 initiative, DOS's efforts to bring all bank examinations current, and a grandfather provision of the *Gramm Leach Bliley Act* may have adversely affected application processing times. Accordingly, we revised the scope of our review to include only applications received from January 1, 2000 through July 31, 2000. We analyzed ATS information for the 133 applications that DOS received during that period and reviewed files at the Atlanta, Kansas City, and Chicago regional offices. Those offices accounted for 63 or 47 percent of the 133 applications received.

We selected the Atlanta and Chicago offices because the average processing times for those offices from our initial sample were representative of the regions as a whole. However, because it appeared to process most of its applications within established time frames, we selected the Kansas City office to identify any best practices that DOS could apply in its other regions. We reviewed a total of 50 application files in the Atlanta, Chicago, and Kansas City offices during this part of the review. We compared information in ATS with information contained in the application files. For applications that DOS did not process within established time frames, we interviewed the case managers and discussed whether they could have reduced the processing times. We also interviewed DOS assistant regional directors, deputy directors, and regional directors to gain an understanding of the application review process and to discuss individual applications.

Because DCA regional offices also review all new bank applications for insurance, we interviewed DCA personnel in the Atlanta, Chicago, and Kansas City offices and reviewed DCA's role in the process. However, the DCA reviews did not affect the timeliness of DOS's new bank deposit insurance application process. Accordingly, we will convey the results of our DCA work in a separate memorandum to the Director, DCA.

We limited our evaluation of internal controls to those controls necessary to accomplish our objective. Specifically, we reviewed DOS's controls over new bank application processing. We performed limited testing of the information extracted from ATS and did not perform an evaluation of the general and application controls for the system. We conducted our audit work from May 2000 through November 2000 in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Generally, DOS followed its processing guidelines for addressing the seven statutory factors and delegated authority in its review and evaluation of applications for deposit insurance from proposed financial institutions. Furthermore, our review of DOS's processing showed that the FDIC consistently applied its procedures regardless of the applicant's primary federal regulator. We saw no evidence that DOS treated applications from any of the primary regulators differently.

However, we did note that case managers did not always follow DOS guidelines regarding "accepting" applications for deposit insurance. Further, we found that DOS could improve processing timeliness by more consistently ensuring that applications are substantially complete before acceptance. In addition, the FDIC could enhance its monitoring of the application process by evaluating timeliness over a period of time. Finally, we found that information recorded in ATS was not always accurate.

PROCESSING PROCEDURES WERE CONSISTENTLY APPLIED

The FDIC followed its processing procedures when evaluating applications for deposit insurance regardless of the primary federal regulator. FDIC policies and procedures did not differ for deposit insurance applications based on the primary federal regulator. In addition, DOS staff stated that there was no difference in the processing of deposit insurance applications because of the primary federal regulator. Our review of the application files did not identify differences in the processing procedures followed because of the primary federal regulator.

Nonetheless, our review of processing times for applications that DOS completed from January 1, 1999 through May 31, 2000 showed that applications with OTS designated as the primary federal regulator took longer on average to process. However, our work indicated that factors outside of the application process caused the additional time for processing the OTS applications. For example, the *Gramm Leach Bliley Act* resulted in premature applications for deposit insurance filed with the FDIC in order to protect the applicants' opportunities with OTS under the "grandfathering" provisions of the legislation. Table 1 shows the FDIC's processing times for applications of each of the primary federal regulators:

Table 1: The FDIC’s Average Application Processing Time by Primary Federal Regulator from January 1, 1999 Through May 31, 2000

Applicant’s Primary Federal Regulator	Number of Applications	Average Number of Days to Process
Federal Deposit Insurance Corporation	254	138
Federal Reserve Board	35	161
Office of the Comptroller of the Currency	93	140
Office of Thrift Supervision	60	217
Total	442	151

Source: OIG analysis of ATS data.

APPLICATION PROCESSING TIMELINESS COULD BE IMPROVED

The FDIC did not meet its timeliness standards for 52 percent of the new bank applications that it received during the period from January 1, 2000 through July 31, 2000. The FDIC incorporated application processing timeliness in its strategic goals and objectives and issued regulations and policies with standard time frames for processing new bank applications for deposit insurance. Table 2 shows the number of applications that each region processed both within and outside of established time frames (120 days for standard processing or 60 days for expedited processing).

Table 2: Timeliness of Applications Processed by Region from January 1, 2000 Through July 31, 2000

FDIC Region	Total Applications Received	Processed Within Time Frames	Processed Outside of Time Frames	Percent Outside of Time Frames
Atlanta	18	6	12	67
Boston	2	0	2	100
Chicago	22	7	15	68
Dallas	12	7	5	42
Kansas City	17	14	3	18
Memphis	15	9	6	40
New York	7	1	6	86
San Francisco	30	15	15	50
Total	123*	59	64	52

*DOS received 133 applications and returned 10 to the applicants without processing them.

Source: OIG analysis of ATS data.

DOS processed the 64 applications that did not meet established time frames from 1 day to over 90 days past the target completion dates. Table 3 categorizes the applications that DOS processed outside of established time frames by the number of days past the target completion dates.

Table 3: Applications Processed Outside of Established Time Frames

Days Outside of Time Frames	Applications Processed
1 - 7	7
8 - 14	11
15 - 21	6
22 - 28	3
29 - 35	7
36 - 60	14
61 - 90	9
Over 90	7
Total	64

Source: OIG analysis of ATS data.

A number of issues affected the timeliness of the application review process at the Atlanta, Chicago, and Kansas City regional offices. Although the timeliness issues varied on an application-by-application basis, in many cases the applicant did not submit complete or fully developed information. We believe that the FDIC could significantly improve its timeliness by ensuring that applications are substantially complete before DOS accepts them.

To obtain deposit insurance, a proposed financial institution must submit an application for deposit insurance to the cognizant DOS regional office. Upon receipt of an application, the regional case manager responsible for the application makes a determination as to whether the application is “substantially” complete. The information necessary for DOS to begin processing an application is detailed in a package provided to applicants that inquire. However, it is important to note that an applicant may submit an application without having received an application package from DOS.

DOS’s *Case Managers Procedures Manual* provides additional criteria for accepting an application. The manual states: “If the application is deemed substantially complete, an acceptance letter should be prepared . . . to notify the applicant of the acceptance date.” Although the manual does not define the term “substantially complete,” it does provide some guidance in the area of accepting applications. Specifically, the manual states: “If there are only minor deficiencies, the application should be entered in the ATS (but not accepted) and the applicant should be contacted in writing and requested to provide the missing information.” The manual goes on to say: “If the applicant fails to provide the information in a timely manner . . . the application should be deemed abandoned and returned to the applicant.” Accordingly, once

the case manager concludes that an application is substantially complete, the DOS accepts the application and the processing time begins.

Several of the applications included in our sample did not appear to be substantially complete at the time that DOS received and accepted them. The applications sometimes lacked critical processing information such as business plans, financing, or the identification of officers and directors. Although applications were not always substantially complete, the case manager accepted the applications and initiated processing. Without a complete and fully developed application, DOS cannot complete processing of the application. Case managers stated that they accepted certain applications when there was enough information to begin processing of the application even if some information and documentation was missing at the time.

The following examples illustrate problems that DOS experienced in meeting established time frames because case managers accepted incomplete applications:

- DOS received an application on March 3, 2000 and accepted it on March 6, 2000. Although DOS accepted the application, the case manager notified the applicant on March 29, 2000 that DOS would not process the application further until the applicant provided additional information. In this example, the case manager identified 21 items that the applicant did not provide or adequately support in its initial submission. The applicant provided most of the additional information on April 10, 2000. DOS started its evaluation on April 17, 2000—42 days after acceptance—and completed its report on May 25, 2000. Further, when DOS completed its field evaluation the applicant had still not identified the location of its temporary offices or obtained state approval to occupy its permanent location. DOS did not approve the application until August 24, 2000—91 days after it completed the field investigation and 171 days after it accepted the application. The case manager stated that she accepted the application because she knew that the applicant would be able to favorably resolve all of the questions. The case manager also said that she believed that DOS had to either accept the application when received or return it to the applicant if it was not substantially complete.
- DOS initially received another application on January 5, 2000. The applicant provided additional information on January 15, 2000 and again on February 3, 2000 when DOS accepted the application. On February 16, 2000, the case manager notified the applicant that DOS accepted the application but still needed additional information including, among other items, the offering circular that describes ownership and operations to potential investors. However, DOS did not receive the offering circular until May 23, 2000—110 days after it accepted the application. Because the offering circular differed from what the application proposed, DOS did not approve the application until June 30, 2000. The DOS Deputy Regional Director said that applicants often submit offering circulars late in the process. The offering circulars sometimes introduce or change critical processing information such as stock option plans, which adds time to the application approval process.

As shown in the above examples, delays occurred because the information that the applicants provided was not substantially complete at the time that DOS accepted the applications. The

FDIC requires a proposed financial institution to provide detailed information in its application on its anticipated operations. Although we acknowledge that circumstances may change during processing of an application, we believe that DOS could minimize the effect of any changes by ensuring that an application is complete before accepting it. Currently, DOS's *Case Managers Procedures Manual* allows case managers the option to either immediately return an incomplete application or hold it in abeyance (usually for no more than 60 days) pending the receipt of additional information before DOS accepts and processes the application.

A DOS manager from the Washington office responsible for overseeing the process for new applications stated that he did not consider an application untimely when the applicant—and not the FDIC—caused the delay. We agree that processing delays are generally attributable to the applicants. However, by accepting an incomplete application the FDIC loses some control over the process. For example, in some instances case managers did not follow up on missing or incomplete information until late in the process because of other priorities, which may have contributed to applications exceeding established processing time frames. The case managers justified the delays in ATS by stating that they were waiting for information and/or documentation from the applicant.

Identifying and requesting additional information that DOS needs before it accepts an application would reduce reported processing time and thus the need to document delays that applicants cause. We believe that by ensuring that applications are complete before DOS accepts them, the FDIC could substantially improve its overall applications processing performance. It is important to note that we fully recognize that our proposed changes—specifically, that DOS require an applicant to provide essential information before it accepts an application—may not have an effect on overall processing time (from the date of the initial receipt of an application until the date of final approval). That is, simply delaying the acceptance of an application may not shorten the overall processing time. However, given that the FDIC's *Strategic Plan* states that the FDIC's reviews must be timely and that DOS established processing guidelines, we believe that our proposed actions will help DOS meet its guidelines.

APPLICATION MONITORING COULD BE ENHANCED

The FDIC's application monitoring could be enhanced by evaluating timeliness performance over a period of time. The monitoring reports used by management only provided the status of applications at a given point in time and not how well the FDIC performed over a period of time. Consequently, management may not have been fully aware of the performance issues in the processing of deposit insurance applications.

As part of its *Strategic Plan*, the FDIC established time frames for processing applications for deposit insurance. The FDIC's *Strategic Plan* states that it will monitor how well it meets the established time frames. The *Case Managers Procedures Manual* states that DOS will monitor compliance with established processing time frames through weekly reports showing the status of each application in the regional offices. The regional offices forward the weekly reports to the Risk Management and Applications Section of the Washington office.

The weekly reports list applications that the DOS regional offices are currently processing. When an application in process exceeds established time frames, the region provides an explanation for the delay. Once DOS acts on an application, it drops the application from the weekly reports. DOS uses the weekly reports primarily to identify the reasons for delays in the processing of individual applications and not to evaluate timeliness performance over a period of time. DOS management officials said that they were aware that DOS did not always meet application-processing time frames but were somewhat surprised that overall 52 percent of deposit insurance applications did not meet established time frames. Evaluating performance over a period of time would provide management with the opportunity to identify and evaluate processing trends. In addition, it would provide management with a method for reporting on its related strategic goals and objectives.

ATS has the capability of analyzing timeliness performance over a period of time. The *Delay Recap Report* in ATS could be used to evaluate the timeliness of processing deposit insurance application during an evaluation period.

ATS ACCURACY COULD BE IMPROVED

DOS did not always record applications that it received in ATS, and the information that it recorded in ATS was not always accurate. Specifically, DOS did not always record returned applications in ATS. In addition, ATS contained inaccurate or missing processing dates and incomplete explanations of processing delays. Although those deficiencies did not materially impact our analysis of the timeliness of the FDIC's processing of new bank applications, the FDIC uses ATS to monitor application processing and, accordingly, the accuracy of ATS information is important.

Case managers in one of the three regions that we reviewed did not enter the receipt of applications in ATS until after the region accepted the applications. The region returned four applications received during our audit period and one received before our audit period to the applicants without entering the applications in ATS. The *Case Managers Procedures Manual* states that DOS should create an ATS record for all applications, whether complete or not, in order to maintain an accurate inventory of applications received. Because DOS did not always record all applications received, ATS does not accurately account for the total number of applications that DOS received.

In addition, case managers were not consistent in their interpretations of the application "acceptance date." Some case managers considered the acceptance date to be the date they reviewed and accepted an application while other case managers used the date received for substantially complete applications. DOS's procedures state that for substantially complete applications the date that DOS receives the application is the date of acceptance. The case managers for five applications in our sample used the dates that they reviewed and accepted the applications and not the dates they received the applications, although the applications were substantially complete at the time of receipt. In another case, the application acceptance date in ATS was the date that DOS returned the application to the applicant without accepting it. The application acceptance date is essential for measuring the timeliness of application processing.

Accordingly, DOS should emphasize its accuracy. The case managers stated that they might have made some errors when entering ATS data because they do not work on those types of applications frequently.

Either DOS did not record the dates for start and end of field investigations in ATS or the recorded dates did not agree with the dates on the report of investigation for 9 of the 50 applications that we reviewed. Finally, we identified 10 instances where the justifications for delays did not fully explain the reasons for processing delays. Specifically, for those 10 applications,

- 2 did not include any explanation for the delays,
- 4 did not provide accurate explanations for the delays,
- 2 did not provide sufficient detail about the delay, and
- 2—although generally accurate—did not disclose additional factors that contributed to the delays.

Because the FDIC established ATS to record and monitor the status of applications, case managers should ensure that ATS records are complete, accurate, and consistent. Incomplete, inaccurate, or inconsistent records diminish their use as a management tool.

CONCLUSION AND RECOMMENDATIONS

The FDIC consistently applied its application processing procedures when reviewing and evaluating applications for deposit insurance from proposed financial institutions regardless of the primary federal regulator. However, the FDIC did not achieve its established processing time frames (120 days for standard processing or 60 days for expedited processing) for 52 percent of the deposit insurance applications that it accepted. The FDIC did not meet the processing time frames in many instances because DOS accepted incomplete applications. The monitoring reports that the FDIC used did not evaluate its timeliness performance over time. In addition, ATS's effectiveness as a management tool diminishes if the records are not complete, accurate, and consistent. Accordingly, we recommend that the Acting Director, DOS, take the following actions:

- (1) Reiterate to case managers and other staff responsible for reviewing applications for deposit insurance the importance of following existing guidance, which states that applications should be substantially complete before acceptance.
- (2) Enhance monitoring of the application process by including performance reports that address overall timeliness in a performance-reporting period.
- (3) Ensure that case managers enter complete, accurate, and consistent information in ATS in accordance with existing guidance.

CORPORATION COMMENTS AND OIG EVALUATION

On March 15, 2001, the Acting Director, DOS, provided a written response to a draft of this report. The response agreed with the recommendations and provided the requisites for a management decision on each of the three recommendations. We did not summarize the Acting Director's response because the actions planned or completed are the same as those recommended. Appendix I to this report presents the Acting Director's response.

Appendix II presents management's proposed actions on our recommendations and shows that there is a management decision for each recommendation in this report.



Federal Deposit Insurance Corporation

550 17th Street NW, Washington, DC 20429

Division of Supervision

Date: March 15, 2001

TO: Gaston L. Gianni, Jr.
Inspector General

FROM: Michael J. Zamorski
Acting Director, Division of Supervision

SUBJECT: Audit Memorandum 2000-101
Audit of the FDIC's Timeliness of Processing
Applications for Deposit Insurance

We appreciate the opportunity to respond to the three recommendations set forth by the Office of Inspector General's (OIG) draft audit of *The FDIC's Timeliness of Processing Applications for Deposit Insurance*.

When processing this type of application, our main objective is to ultimately approve only acceptable risks to the deposit insurance fund. We also endeavor to process these applications in a timely manner to fulfill our commitment to the public. For standard processing, regulations do not require our final action within a specified time period. As a result, we have an internal processing goal of 120 days as a benchmark to monitor this performance.

Although the statutory factors provide a basis for our ultimate determination, each new bank proposal is ultimately unique, primarily the result of differences in locality, business plans and proposed management. In addition, information can be provided in a multitude of formats, oftentimes dictated by the chartering agency. The need for an applicant to provide additional information as a result of our investigation, or as a result of their own changes to the proposal, are commonplace. Many of the delays we encounter are caused by the applicant.

RECOMMENDATIONS

The OIG recommends that the Director of the Division of Supervision (DOS):

1. *"Reiterate to case managers and other staff responsible for reviewing applications for deposit insurance the importance of following existing guidance, which states that applications should be substantially complete before acceptance."*

We agree that submitted applications should be substantially complete when accepted by the Case Manager; the findings of your audit coincide with areas of weakness already under revision by DOS. Currently, we are involved in two projects that will ultimately affect deposit insurance application processing. First, an FDIC/OCC/FRB/OTS working group has been involved in the development of an interagency, de novo financial institution application form. We believe that the revised application form will provide more complete information, and a better framework for the determination of a substantially complete application. This form has been under development for some time; the group hopes to complete final revisions shortly, solicit public comments, and then issue the final form. Overlapping this project is our extensive "Project Redesign" initiative, which has also considered the processing of Applications for Deposit Insurance as an area for review. In conjunction with the interagency project, the DOS redesign group has developed additional recommendations to assist in the receipt of a more clearly defined and complete application package. These recommendations currently await review and approval.

In the interim, we intend to issue a Regional Director Memorandum summarizing current processing timelines and acceptance criteria for applications. This memorandum will be issued by the end of the second quarter, 2001.

2. *"Enhance monitoring of the application process by including performance reports that address overall timeliness in a performance reporting period."*

We agree that performance reports should be used to monitor the application process. ViSION replaced ATS for applications tracking functions on February 5, 2001. ViSION offers DOS managers a menu of reports designed to monitor applications processing performance. In specific response to the OIG comments above, a report entitled "Delayed Recap by Selected Application Type for all Regions" allows for the monitoring of each region over a determined reporting period. The criteria for this report allow the selection of an application type (i.e. FDI New) and the desired time frames that are to be viewed in the report. The report output indicates, for each region, the number of actions taken during the period and the number of those applications that were outside established time frames. The "% Delayed" is then indicated, showing, in aggregate, processing performance during a period.

Beginning June 30, 2001, we will expect that this report be reviewed by the regions at least quarterly. They will be expected to prepare and analyze this report for the prior three month and twelve month time periods. The previously described Regional Director Memorandum, to be issued by the end of the second quarter, 2001, will outline expected usage of these management reports.

3. *Ensure that case managers enter consistent, accurate, and complete information in ATS in accordance with existing guidance.*”

We agree that maintenance of accurate tracking records for applications is an important management tool. In a Regional Director Memorandum dated October 31, 2000 (2000-056) we emphasized the importance of entering timely, concise and accurate information into the tracking database. This memorandum was issued subsequent to the period of your review. We also reiterated to the Regional Directors, via email from Acting Assistant Director James Watkins dated March 6, 2001, the importance of entering timely and accurate information into the ViSION AT system. Bi-annual Regional Office internal reviews will continue to monitor the accuracy of timeliness and accuracy of data input and the use of reporting mechanisms.

With regard to specific issue involving ATS accuracy that have been raised in your report, we offer the following responses:

“Case Managers in one of three regions did not enter the receipt of applications in ATS until after the applications were accepted. DOS’s Case Manager Procedures Manual states that an ATS record should be created for all applications, whether complete or not, in order to maintain an accurate inventory of applications received.” (Page 16)

The DOS Case Manager Manual was updated with a fifth revision in May 2000; the revision was distributed in July 2000. The instructions quoted in your report were revised as part of this May 2000 manual update, and were highlighted in Director Sexton’s cover memorandum. Previous instructions on page 20.1-1 (6-98) indicated the following: “While materially deficient applications should not be accepted and therefore not logged on the ATS system...”. Since your review covered the period January 1, 2000 to July 31, 2000, previous instructions may have been applicable. The instruction to immediately enter applications in the tracking system upon receipt will be reiterated in the previously described Regional Director Memorandum to be issued by the end of the second quarter, 2001.

“The DOS Deputy Regional Director said that applicants often submit offering circulars late in the process. The offering circulars sometimes introduce or change critical processing information, such as stock option plans, which adds time to the application approval process.” (Page 13)

An offering circular is a time sensitive document generally prepared near the end of the organization process, because of the many changes that can occur prior to taking an offering to market. These changes can be initiated by the applicant, by the FDIC, or by the chartering agency. The cost of this document can be extensive; \$25,000 or more. We do agree that the FDIC needs to be aware of important information to be included in the circular, such as stock option plans, at the time of application.

The FDIC Statement of Policy on Applications for Deposit Insurance states “A copy of the offering circular prepared by the applicant, the stock solicitation material and the subscription agreement should be submitted to the FDIC when they become available.” Because stock option plans have been the cause of many processing delays, we will request applicants to finalize this issue in writing as early as possible in the process.

The plans are often driven by industry competition and trends in executive compensation. To the extent that the plans conform to industry norms, and our Statement of Policy, there is a much better chance that the proposal will not be delayed in processing. However, we occasionally encounter situations where the proposed plan provides insiders disproportionate option rights that do not conform to our policy statement requirements. This causes significant delays to either process the application through the Washington office or to work with the applicant in revising the plan at the regional level.

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 the 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 that the FDIC plans to disallow must be included in management's response.

If management does not agree that it should implement a recommendation, it must describe why it does not consider the recommendation 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 management's responses on recommendations in our report and the status of management decisions. The OIG based the information for management decisions 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 Acting Director, DOS, agreed with the recommendation and stated that DOS is currently involved in two projects that will affect deposit insurance application processing. The Acting Director added that in the interim, DOS would issue a Regional Director Memorandum summarizing current processing timelines and acceptance criteria for applications.	06/30/01	Copy of Regional Director Memorandum.	N/A	Yes

Rec. Number	Corrective Action: Taken or Planned / Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
2	<p>The Acting Director, DOS, agreed with the recommendation and stated that ViSION, which replaced ATS for applications tracking on February 5, 2001, provides a report for monitoring the timeliness of each regions' processing of applications over a determined reporting period. The Acting Director added that the regions would prepare and analyze this report quarterly for the prior 3-month and 12-month periods.</p>	06/30/01	<p>Copy of Regional Director Memorandum and regions' quarterly reports.</p>	N/A	Yes
3	<p>The Acting Director, DOS, agreed with the recommendation and stated that DOS issued an October 31, 2000 Regional Director Memorandum (2000-056) after we completed our review, which emphasized the importance of entering timely, concise, and accurate information into the tracking database. The Acting Director added that DOS also reiterated in a March 6, 2001 e-mail to the regional directors the importance of entering timely and accurate information into the ViSION application tracking system. The Acting Director also stated that biannual regional office internal reviews would continue to monitor timeliness, the accuracy of data input, and the use of reporting mechanisms.</p>	Completed	<p>Acting Director's response and copies of Regional Director Memorandum 2000-056 and March 6, 2001 e-mail.</p>	N/A	Yes