KENNETH LEVENTHAL'S BILLINGS FOR DUE DILIGENCE SERVICES UNDER BASIC ORDERING AGREEMENT 700-90-0014 AND LETTER AGREEMENT DATE MAY 26, 1992

Audit Report No. 99-023
April 22, 1999

OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

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DATE: April 22, 1999

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

FROM: Sharon M. Smith
Director, Field Audit Operations

SUBJECT: *Kenneth Leventhal's Billings for Due Diligence Services under Contract 700-90-001 and Letter Agreement Dated May 26, 1992* (Audit Report No. 99-023)

This report presents the results of an audit of Kenneth Leventhal and Company's billings to the Resolution Trust Corporation (RTC) under basic ordering agreement (BOA) 700-90-0014 for bulk sales valuation services and a letter agreement dated May 26, 1992 (together, hereinafter referred to as contract 700-90-0014).[1] This is the Office of Inspector General's (OIG) third report on Ernst & Young's (E&Y) due diligence contract billings to the RTC.[2]

BACKGROUND

The RTC's Office of Contracts entered into BOA 700-90-0014 with E&Y on December 12, 1990. Under that BOA, E&Y was to provide valuation services for the RTC assets included in large bulk sale transactions. On May 26, 1992, the RTC's Sales Center executed a letter agreement with E&Y under that BOA to perform due diligence of mortgage loans included in the RTC's 1992 C-5 sales initiative. The securitization unit in the RTC's Sales Center awarded and administered the letter agreement without any involvement from the RTC's Office of Contracts.

E&Y's New York, New York, office supervised the due diligence of RTC loans at eight sites throughout the United States. In addition, the RTC used the services of Bear Stearns & Company to underwrite, securitize (analyze the RTC's inventory of assets, assess investor

[1]Kenneth Leventhal merged with Ernst & Young (E&Y) in June 1995. Because E&Y was the successor organization, it provided the OIG with access to Kenneth Leventhal documents and addressed the audit findings. Accordingly, E&Y is used synonymously with Kenneth Leventhal throughout this report.

[2]The first report was entitled *Ernst & Young Kenneth Leventhal Real Estate Group's Billings for Due Diligence Services Contract 700-93-0039-011, Task Orders 700-004 and 700-014* (audit report number 98-001, dated January 5, 1998). The second report was entitled *Kenneth Leventhal's Billings for Due Diligence Services Under Contract 700-90-0014, Letter Agreement Dated January 6, 1993* (audit report number 98-074, dated July 31, 1998).

markets, and structure sales packages), market, and sell the mortgage loans included in the 1992 C-5 sales initiative. In its role as lead underwriter, Bear Stearns worked closely with E&Y to decide which loans would be included in the sale and performed a quality control audit of E&Y's loan data files provided to potential buyers, servicers, and rating agencies.

One of E&Y's core tasks was data collection and verification—reviewing loan files and summarizing information on file abstract forms (FAF). The type of FAF required was based on the loan balance—under $200,000 for critical; $200,000 to $999,999 for short; and $1,000,000 and over for long forms. The contract specified that the RTC would pay for the various FAF types using E&Y's proposed not-to-exceed caps per FAF. Included in the not-to-exceed caps were hourly labor rates for five occupational categories plus reasonable out-of-pocket expenses for travel and per diem. The contract did not specify different not-to-exceed caps for due diligence on loans removed from the transaction versus those loans included in the securitization transaction. In total, E&Y billed for 3,591 loans that were included in the sales transaction, 313 loans deleted from the sale after being input into the loan database, and 496 loans deleted before being input into the loan database.

The letter agreement specified that all required tasks were included in the not-to-exceed caps for FAF preparation. The required (or core) tasks included loan pool preparation, loan file review, compilation of electronic loan database, updating loan information, and ongoing assistance. In addition to the core tasks, the contract also provided for several optional tasks at different not-to-exceed caps. Examples of optional tasks included property inspection reports and net operating income (NOI) requests and analyses.

In our entrance conference, E&Y's government segment leader stated that RTC representatives orally modified the contract from billing the lesser of hourly or fixed fees per loan to "whatever was billed" which was a combination of fixed and hourly fees. To support that contention, E&Y's government segment leader provided the names of former RTC officials who E&Y claimed had orally modified the contract. The contracting environment in RTC during 1992-93 was such that contracts were made without the involvement of the Office of Contracts and oral modifications were possible. Therefore, we interviewed six former RTC officials and one Bear Stearns official. Five of the RTC officials stated that they did not orally modify the contract and the sixth said that she did not remember orally modifying the contract. The Bear Stearns official stated that E&Y was supposed to clear requested tasks with the RTC and, furthermore, no one at Bear Stearns had the authority to make such modifications.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether E&Y's billings under contract 700-90-0014 were in accordance with the contract terms and adequately supported. We reviewed $3,606,007 that E&Y billed the RTC for services performed from May 1992 through July 1992 under contract 700-90-0014 that related to the RTC's 1992 C-5 sales initiative. E&Y billed the RTC an additional $24,000 for optional tasks that we did not review because they were billed as a lump-sum amount as provided by the contract.

E&Y claimed that certain RTC officials either orally modified the contract or knew of others who orally modified it. To determine whether the contract was orally modified, we interviewed

- RTC and Federal Deposit Insurance Corporation (FDIC) securitization unit, capital markets, and contracting department officials;

- E&Y's government segment leader in Washington, D.C.; and

- a Bear Stearns managing director.

In addition, we reviewed the contract files and correspondence between E&Y, the RTC, and Bear Stearns for written evidence of any contract modifications or authorizations to perform additional services beyond the specified core tasks.

For its billings for required and optional tasks, we reviewed E&Y's

- additions and deletions reports summarizing the number of loans at each site, which determined the number of loans included or excluded from the sale, and

- database edit reports containing detailed information on all loans in the loan database, which substantiated whether loans were deleted after being input into the loan database.

In addition, we interviewed a Bear Stearns managing director to determine whether Bear Stearns excluded loans from the initiative before E&Y performed any work or after E&Y had completed work and entered information into the loan database. We also reviewed site managers' memorandums to determine the hourly rates and costs incurred on completed loans that were included in and excluded from the sale.

For optional tasks, we also reviewed E&Y's documentation supporting the number of loans billed for various optional tasks as well as Bear Stearns' instructions and correspondence to determine whether the RTC or Bear Stearns authorized the tasks. For subcontracted site inspections, we also compared the amounts that E&Y paid on subcontractor invoices to the contractual limits and the amounts billed to the RTC.

For E&Y's billings for additional services, we reviewed the contract and correspondence to determine whether the RTC authorized the four categories of hourly labor fees that E&Y billed. We reviewed selected supporting documentation (e.g., information prepared by site managers and daily time logs) for the three categories with authorizations—Bear Stearns' audit compare (where Bear Stearns would compare its own database created from an independent review of the loan files to E&Y's loan database), additional services at field sites, and accounting services. We did not review any supporting documentation for the remaining category—allocation of management and fixed costs—because the contract prohibited those costs. Finally, for site leasing and out-of-pocket expenses, we reviewed the contract files and supporting documentation to determine whether the RTC had authorized those costs.

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

RESULTS OF AUDIT

We questioned $1,387,094 (38 percent) of $3,606,007 in E&Y's invoices that we reviewed because the billings were either not in accordance with the terms of the contract or not adequately supported. Table 1 summarizes E&Y's billings under contract 700-90-0014 that the OIG reviewed and the amounts questioned.

Table 1: E&Y Billings Reviewed and Questioned Under Contract 700-90-0014

Cost Category	Reviewed	Questioned
Fees for required and optional tasks	$2,659,953	$545,015
Hourly labor fees	772,907	703,482
Site leasing costs and out-of-pocket expenses	173,147	138,597
Totals	**$3,606,007**	**$1,387,094**

Source: OIG analysis of E&Y's bills and supporting documentation.

Based on our audit, the OIG recommended that the FDIC's Associate Director, Acquisition Services Branch, Division of Administration, disallow $1,387,094 of fees paid to E&Y under contract 700-90-0014.

UNALLOWABLE AND UNSUPPORTED BILLINGS FOR REQUIRED AND OPTIONAL TASKS

E&Y billed the RTC $2,659,953 for required and optional tasks primarily at fixed amounts per loan based on the not-to-exceed caps per FAF specified by the contract. Those billings included fixed amounts for loans included in and excluded from the sales transaction as well as other fees such as NOI requests, pro formas, site inspections, packaging, assignment preparation, and adjustable-rate mortgage audits. Of the $2,659,953 billed, we questioned $545,015 because E&Y billed the RTC for duplicate and unauthorized tasks and unsupported work.

Table 2 summarizes E&Y's billings and the associated questioned costs by loan category and other tasks. The loan categories are loans included in the sale (completed/included), loans excluded from the sale after being input into the loan database (completed/excluded), and loans excluded from the sale before being input into the loan database (uncompleted/excluded).

Table 2: Questioned Costs for Required and Optional Tasks

Cost Category	Billed	Questioned
Completed/included loans	$1,830,150	$ 0
Completed/excluded loans	152,525	105,150
Uncompleted/excluded loans	122,525	0
Other tasks	554,753	439,865
Totals	**$2,659,953**	**$545,015**

Source: OIG analysis of E&Y bills and supporting documentation.

Loans Excluded from the Sale After Inclusion in the Loan Database

E&Y billed for 313 loans that were excluded from the sale after being input into the loan database. However, available support showed that only 101 loans were excluded from the sale after inclusion in the loan database. Accordingly, of the $152,525 that E&Y billed for completed/excluded loans, we questioned $105,150, all of which is unsupported.

E&Y provided additions and deletions reports that showed the beginning number of loans at each field site, the associated number of loans added and subtracted from the sale, and who excluded the loans—the field site or Bear Stearns. A Bear Stearns managing director said that some loans were excluded before E&Y performed any due diligence work. The managing director added that if Bear Stearns excluded a loan that was not on the database edit report, E&Y did not receive or perform any work on that loan. E&Y provided Bear Stearns with database edit reports that detailed the loans that E&Y included in the loan database. We compared the loans shown as excluded on E&Y's additions and deletions reports to Bear Stearns' database edit reports and found that Bear Stearns deleted 101 loans after the loans had been input into the loan database and another 197 loans that were not sent to E&Y. The 197 loans that Bear Stearns showed were not sent to E&Y were within 15 of the 212 loans (313 billed less 101 supported) that E&Y billed but could not support. Accordingly, we questioned $105,150, all of which is unsupported, that E&Y billed the RTC for those 212 loans.

Other Tasks

E&Y billed $554,753 for other tasks billed primarily at fixed amounts per loan. Of that amount, we questioned $439,865 (of which $89,077 is unsupported) because the tasks billed were already included in the not-to-exceed caps for FAF preparation, were unauthorized or unsupported, or exceeded the lower of per loan caps or actual payments to subcontractors. Table 3 summarizes E&Y's billings for other tasks and the amounts questioned.

Table 3: Questioned Costs for Other Tasks

Category of Tasks	Billed	Questioned
Extra packaging and assignment costs	$126,433	$126,433
Assignment preparation	72,300	72,300
Packaging	36,150	36,150
NOI requests	88,000	86,852
Pro formas	67,025	67,025
Site inspections	154,885	51,105
Adjustable-rate mortgage audits	9,960	0
Totals	**$554,753**	**$439,865**

Source: OIG analysis of E&Y bills and supporting documentation.

E&Y billed $126,433 for extra packaging and assignment costs, $72,300 for assignment preparation, and $36,150 for packaging, or a total of $234,883. The contract defined assignment preparation and recording of assignments as well as document delivery and associated packaging costs as core tasks, which were included in the not-to-exceed caps per FAF. Accordingly, we questioned the total $234,883 billed for those tasks.

E&Y billed $20 each for NOI requests for all 4,400 loans included in the sale, or a total of $88,000. According to Bear Stearns' correspondence, E&Y did not have to request NOI information for loans with balances under $200,000. However, E&Y billed $64,800 for soliciting NOI information on 3,240 loans with balances under $200,000. Accordingly, E&Y billed $64,800 of the $88,000 for unauthorized tasks. For the remaining $23,200 billed for NOI requests, E&Y provided supporting documentation for only $1,148 in costs incurred at three field sites leaving $22,052 in unsupported costs. Accordingly, we questioned a total of $86,852 of the $88,000 billed, of which $22,052 is unsupported.

E&Y also billed a total of $67,025 for pro formas on 228 loans at either $175 or $350 per loan. The contract limited E&Y to the lower of hours incurred at specified hourly rates or the not-to-exceed cap per loan of $350. However, E&Y did not provide any documentation of the hours incurred at specified hourly rates. Accordingly, we questioned the entire $67,025 billed for pro formas, all of which is unsupported.

In addition, E&Y billed $154,885 for performing site inspections on 492 loans. E&Y provided documentation that substantiated 492 site inspections performed by subcontractors. Although E&Y proposed a not-to-exceed cap of $225 per loan for site inspections, it billed from $225 to $369 per loan. E&Y paid its subcontractors from $100 to $1,000 per loan. We calculated the allowable site inspection billings based on the lower of E&Y's payments to the subcontractors or the not-to-exceed cap of $225 per loan, which totaled $103,780. Accordingly, we questioned the remaining $51,105 that E&Y billed for site inspections.

UNALLOWABLE AND UNSUPPORTED HOURLY LABOR BILLINGS

E&Y billed the RTC $772,907 in hourly labor fees for the Bear Stearns audit compare, additional services at field sites, allocation of management and fixed costs, and accounting services. Of that amount, we questioned $703,482, of which $102,798 is unsupported, because the fees were either unallowable or unsupported. Table 4 summarizes the questioned costs by category of labor billings.

Table 4: Questioned Costs for Hourly Labor Billings

Category of Billings	Billed	Questioned
Bear Stearns audit compare	$225,676	$225,676
Additional services at field sites	212,122	202,697
Allocation of management and fixed costs	211,949	211,949
Accounting services	123,160	63,160
Totals	**$772,907**	**$703,482**

Source: OIG analysis of E&Y bills and supporting documentation.

Bear Stearns Audit Compare

E&Y billed $225,676 on an hourly basis for the Bear Stearns audit compare. However, the audit compare was part of two core tasks—data aggregation and data dissemination. Accordingly, we questioned the entire $225,676 that E&Y billed as unallowable fees.

The contract required E&Y to perform certain core tasks, including constructing an electronic loan database with any errors corrected that were found during due diligence (data aggregation) and providing copies of the initial, intermediate, and audited aggregate loan files (data dissemination). During the audit compare, Bear Stearns compared its database, which it had created and updated based on a separate review of the loan files, to E&Y's loan database and provided E&Y with audit exception reports on discrepancies. In response, E&Y reviewed and corrected its loan database, as necessary.

E&Y's billing file showed that the audit compare took place between June 29, 1992 and July 20, 1992. Comments on E&Y's billing worksheets during that 22-day period show that most of the employees charged the bulk of their time to the core task labeled aggregation process/data collection (data aggregation). Accordingly, the $225,676 that E&Y billed on an hourly basis for the Bear Stearns audit compare was unallowable because the associated tasks were included in the not-to-exceed caps per FAF.

Additional Services at Field Sites

E&Y billed $212,122 on an hourly basis for additional services at field sites. Of that amount, the RTC authorized additional services related to $112,223 of the billings. However, E&Y provided support for only $9,425 of the authorized additional services billed. Accordingly, of the $212,122 billed for additional services, we questioned $202,697, of which $102,798 is unsupported. Table 5 summarizes the activities that E&Y billed at hourly labor rates for additional services and the amounts that we questioned.

Table 5: Questioned Costs for Additional Services at Field Sites

Service Category	Billed	Questioned
Evaluate prior due diligence	$ 3,036	$ 3,036
Redo FAFs already prepared[a]	24,585	19,319
Change file index	14,804	14,804
Track inspection reports addresses and phone numbers[a]	37,616	36,978
Set up of office	14,200	14,200
Match, locate, and move files	49,178	49,178
Evaluate loans excluded by servicers	15,559	15,559
Change in evaluation criteria for excluding loans[a]	22,735	19,322
Prepare additional computer reports and crack tapes[a]	18,714	18,714
Duplicate preparation and review	1,272	1,272
Inventory loans from various locations	325	325
Locked out of facility	1,525	1,525
Search for loans under $10,000[a]	8,573	8,465
Total	**$212,122**	**$202,697**

[a]Included in additional authorized services totaling $112,223, of which $102,798 is unsupported.

Source: OIG analysis of E&Y bills and supporting documentation.

The contract's scope of services defined the core tasks included in the not-to-exceed caps per FAF as all required tasks. The contract also provided that E&Y should bill (1) any approved services not included in the core tasks at current billing rates announced by the RTC and (2) reasonable and customary expenses related to the performance of such approved additional services. Correspondence between E&Y, the RTC, and Bear Stearns documented requests for the following additional services at field sites:

- redoing FAFs already prepared because of form changes,
- tracking addresses for inspection reports,
- changing evaluation criteria for excluding loans,

- preparing additional computer reports, and
- searching for loans under $10,000.

E&Y billed $112,223 for those authorized additional services at field sites but provided support for only $9,425 of that amount. E&Y did not provide supporting documentation for the remaining $102,798 in authorized additional services. E&Y also billed $99,899 for additional services that were not authorized. Examples of unauthorized tasks that E&Y billed included time incurred setting up offices, matching legal and bank working files, locating missing files, and moving files in and out of the vault. Those were core tasks covered by the not-to-exceed caps per FAF.

Allocation of Management and Fixed Costs

E&Y billed $211,949 for allocated management and fixed costs because the number of assets included in the sale was significantly smaller than had been anticipated in the request for proposal. However, the RTC and Bear Stearns reserved the right under the contract to add or subtract loans and institutions from the transaction without renegotiating the price. Also, the contract made E&Y solely responsible for its costs and did not provide for the allocation of overhead costs. Accordingly, we questioned the entire $211,949 that E&Y billed for allocated management and fixed costs.

Accounting Services

E&Y billed the RTC $123,160 for accounting services, which consisted of its proposed $60,000 flat fee plus $63,160 for additional trust auditor services billed at hourly labor rates. E&Y billed $40,000 for an extra letter and preliminary prospectus procedures, $16,600 for special loan modeling, $3,450 for rating agency meetings, $1,725 for payment history verifications, and $1,385 for underwriter services.

The contract specified a $60,000 flat fee for trust auditor services, which required E&Y to

- recompute statistical information in the prospectus,
- model remaining cash flows,
- generate price/yield sensitivity tables for specific classes of loans,
- provide pricing letters after performing certain procedures, and
- roll the current balance for each mortgage to the cut-off date.

We questioned the remaining $63,160 that E&Y billed for other trust auditor services at hourly rates because the contract limited trust auditor services to a $60,000 flat fee regardless of the costs incurred. In addition, E&Y did not provide any documents to support that Bear Stearns or the RTC authorized the additional trust auditor services.

UNALLOWABLE SITE LEASING AND OUT-OF-POCKET EXPENSES

E&Y billed the RTC $173,147 for site leasing and out-of-pocket expenses. We questioned $138,597 of that amount that E&Y billed for leasing office space at hourly rates and unauthorized out-of-pocket expenses.

Site Leasing Expenses

Of the $52,930 that E&Y billed for leasing office space at the Midland site, $21,045 represented hours incurred by E&Y personnel to lease the space. E&Y billed the remaining $31,885 for telephone, utility, and office and equipment rental expenses. Although the contract authorized E&Y to lease office space at the Midland site and incur expenses such as telephone, insurance, and electricity, it did not authorize labor costs associated with leasing the office space. Accordingly, we questioned the $21,045 in hourly labor charges billed by E&Y.

Out-of-Pocket Expenses

E&Y billed the RTC $120,217 for out-of-pocket expenses, of which $2,665 related to additional authorized services for which E&Y provided support. However, we questioned the remaining $117,552, because those costs related to either required tasks included in the not-to-exceed caps per FAF or additional services that neither the RTC nor Bear Stearns authorized. Table 6 summarizes the amounts billed and questioned for out-of-pocket expenses grouped by E&Y billing category.

Table 6: Questioned Costs for Out-of-Pocket Expenses

E&Y Billing Category	Billed	Questioned
Loan due diligence	$ 23,536	$ 23,536
Additional services at field sites	42,352	42,352
Audit compare and other data analysis services	14,953	14,953
Allocation of management and fixed costs	23,852	23,852
Servicer charges	3,769	1,104
Data sheet copying and transportation	12,945	12,945
E&Y adjustment to August 11, 1992 invoice	(1,190)	(1,190)
Totals	**$120,217**	**$117,552**

Source: OIG analysis of E&Y bills and supporting documentation.

The contract provided that out-of-pocket expenses for required tasks were included in the not-to-exceed caps per FAF and that E&Y could bill reasonable and customary out-of-pocket expenses for authorized additional services not covered by the not-to-exceed caps. Also, the contract entitled E&Y to reimbursement for servicer fax charges and overtime pay for servicers' employees needed on weekdays after 5:00 p.m. and on Saturdays. E&Y's proposal indicated that the not-to-exceed caps for preparing FAFs included normal out-of-pocket expenses such as travel, hotel, document delivery, and messenger services.

E&Y's supporting documentation showed that the $120,217 that E&Y billed for out-of-pocket expenses included items such as food, lodging, transportation, administrative costs, document delivery, photocopying, and servicer charges. With the exception of $2,665 in overtime pay for servicer employees, the expenses claimed either related to required tasks included in the not-to-exceed caps per FAF or unauthorized additional services. Accordingly, we questioned $117,552 of the $120,217 that E&Y billed for additional out-of-pocket expenses.

CONCLUSIONS AND RECOMMENDATIONS

Of $3,606,007 in E&Y's billings to the RTC that we reviewed under contract 700-90-0014, we questioned $1,387,094 (38 percent), of which $297,025 is unsupported. Accordingly, we recommend that the Associate Director, Acquisition Services Branch, Division of Administration, take the following actions:

(1) Disallow $545,015 (questioned costs, $194,227 of which is unsupported) that E&Y billed primarily at fixed amounts for required and optional tasks.

(2) Disallow $703,482 (questioned costs, $102,798 of which is unsupported) that E&Y billed as additional hourly labor fees.

(3) Disallow $138,597 (questioned costs) that E&Y billed for site leasing and out-of-pocket expenses.

CORPORATION COMMENTS AND OIG EVALUATION

On April 6, 1999, the Associate Director, Acquisition Services Branch, Division of Administration, provided a written response to a draft of this report. The Associate Director's response agreed with the recommendations and provided the requisites for a management decision on each of the three recommendations. The response is not summarized because the actions planned or completed are identical to those recommended. The Associate Director's response is presented as Appendix I to this report.

CORPORATION COMMENTS

FDIC

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

DATE: April 6, 1999

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

FROM: Michael J. Rubino
Associate Director
Acquisition Services Branch

SUBJECT: MANAGEMENT DECISION
Draft Report Entitled "Kenneth Leventhal's Billings for Due Diligence Services Under Contract 700-90-0014 and Letter Agreement Dated May 26, 1992"

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

EXECUTIVE SUMMARY

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

Finding #	Finding Description	Questioned Costs	Management Response	Recovery Amount	Difference
1	Unallowable Billings for Required and Optional Tasks	$545,015	Agree	$545,015	$0
2	Unallowable Hourly Labor Billings	$703,482	Agree	$703,482	$0
3	Unallowable Site Leasing and Out-of-Pocket Expenses	$138,597	Agree	$138,597	$0

MANAGEMENT DECISION

FINDING #1: Unallowable and Unsupported Billings For Required and Optional Tasks

CONDITION: OIG questioned $545,015 that Ernst & Young (E&Y) billed in fixed fees. The questioned fees were because E&Y billed for loans excluded from the sale after inclusion in the loan database, tasks already included in the not-to-exceed caps for FAF preparation, unauthorized or unsupported tasks, and payments that exceeded the lower of per loan caps or actual payments to subcontractors.

RECOMMENDATION: The FDIC should disallow *$545,015* that E&Y billed which were unallowable or unsupported for required and optional tasks.

MANAGEMENT DECISION: We agree with the recommendation.

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

FINDING #2: Unallowable and Unsupported Hourly Labor Billings

CONDITION: E&Y billed $703,482 in hourly charges that were duplications of costs included in fixed-fee billings, unallowable, or unsupported.

RECOMMENDATION: The FDIC should disallow $703,482 billed as additional hourly labor fees for core tasks included in the fixed fees per loan or unsupported.

MANAGEMENT DECISION: We agree with the recommendation.

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

FINDING #3: Unallowable Site Leasing and Out-of-Pocket Expenses

CONDITION: E&Y invoiced $138,597 in expenses not authorized by RTC, including billing for leasing office space at hourly rates and unauthorized out-of-pocket expenses.

RECOMMENDATION: The FDIC should disallow $138,597 that E&Y billed as hourly to lease space and out-of-pocket expenses for normal and usual costs, which according to the contract, were to be assumed by E&Y.

MANAGEMENT DECISION: We agree with the recommendation.

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

cc: Howard Fumer
Andrew Nickle
Mary Rann

EXHIBIT A

SUMMARY OF ACQUISITION SERVICES BRANCH MANAGEMENT DECISIONS

NO.	FINDING DESCRIPTION	QUESTIONED COST/OTHER FINANCIAL ADJUSTMENT	MANAGE-MENT RESPONSE	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
1	Unallowable Billings for Required and Optional Task	*$545,015*	*Agree*	*CORRECTIVE ACTION: We will allow E&Y an opportunity to refute the OIG findings and consider whatever information they have to provide before we decide what amount to seek to recover. Also, in conjunction with the Division of Legal Services, we will consider the circumstances surrounding this overpayment. We will consider our legal position and determine how much of the questioned costs to attempt to recover. We will then take appropriate measures to resolve the questioned costs.*	December 31, 1999	**Settlement Agreement**
2	Unallowable Hourly Labor Billings	*$703,482*	*Agree*	*CORRECTIVE ACTION: We will allow E&Y an opportunity to refute the OIG findings and consider whatever information they have to provide before we decide what amount to seek to recover. Also, in conjunction with the Division of Legal Services, we will consider the circumstances surrounding this overpayment. We will consider our legal position and determine how much of the questioned costs to attempt to recover. We will then take appropriate measures to resolve the questioned costs.*	December 31, 1999	**Settlement Agreement**
3	Unallowable Site Leasing and Out-of-Pocket and Expenses	*$138,597*	*Agree*	*CORRECTIVE ACTION: We will allow E&Y an opportunity to refute the OIG findings and consider whatever information they have to provide before we decide what amount to seek to recover. Also, in conjunction with the Division of Legal Services, we will consider the circumstances surrounding this overpayment. We will consider our legal position and determine how much of the questioned costs to attempt to recover. We will then take appropriate measures to resolve the questioned costs.*	December 31, 1999	**Settlement Agreement**

Appendix II

MANAGEMENT RESPONSES TO RECOMMENDATIONS

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

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

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

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

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

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

Rec. Number	Corrective Action: Taken or Planned / Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	The Associate Director, Acquisition Services Branch, agreed with the recommendation and stated that, in conjunction with the Division of Legal Services, the Division of Administration would review the circumstances surrounding this overpayment and take appropriate measures to resolve the questioned costs.	12/31/99	Settlement agreement.	$545,015 disallowed cost	Yes
2	The Associate Director, Acquisition Services Branch, agreed with the recommendation and stated that, in conjunction with the Division of Legal Services, the Division of Administration would review the circumstances surrounding this overpayment and take appropriate measures to resolve the questioned costs.	12/31/99	Settlement agreement.	$703,482 disallowed cost	Yes
3	The Associate Director, Acquisition Services Branch, agreed with the recommendation and stated that, in conjunction with the Division of Legal Services, the Division of Administration would review the circumstances surrounding this overpayment and take appropriate measures to resolve the questioned costs.	12/31/99	Settlement agreement.	$138,597 disallowed cost	Yes