United States General Accounting Office

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Report to the Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate

October 1993

EXECUTIVE BONUSES

Information on FDIC's and RTC's Executive Bonus Programs

GAO/GGD-94-15

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-254562

October 1, 1993

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

Dear Mr. Chairman:

This letter responds to your March 24, 1993, request that we review the bonuses that the Federal Deposit Insurance Corporation (FDIC) and the Resolution Trust Corporation (RTC) paid to their executive-level employees. You noted that the corporations paid sizable bonuses for 1991 and 1992 and that the aggregate amount paid increased significantly between the 2 years. You further noted that bonuses awarded at three financial institution regulatory agencies—the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the Federal Reserve System (FRS)—were quite a bit smaller.

Specifically, you asked us to evaluate whether (1) during a time of recession and in light of other financial institution regulatory agencies' decisions on similar matters it was a reasonable management decision for FDIC and RTC to award such bonuses in order to attract and retain talented public sector employees and whether (2) there are sufficient internal management controls at FDIC and RTC to ensure that their awarding of bonuses advances the goal of attracting and retaining talented public sector employees.

In considering both the reasonableness of the management decision and the adequacy of the internal management controls regarding 1992 bonuses, your letter seemed to indicate that the goal of FDIC's and RTC's bonus programs should be to attract and retain talented public sector employees. While the five financial institution agencies are authorized to set their own pay and benefit levels as a means of enabling them to attract and retain talented employees, not all components of their compensation packages are used primarily for that purpose. We determined in the course of our work that FDIC and RTC do not use bonuses primarily as a recruiting or retention tool. Rather, as with the Senior Executive Service (SES) bonus program at federal agencies, FDIC and RTC award bonuses to their executives to encourage and reward superior performance. Because of this, we did not attempt to determine what effect bonuses may have on the corporations' ability to attract and retain talented employees.

Scope and Methodology

To evaluate the reasonableness of FDIC's and RTC's 1992 bonus decisions, we reviewed applicable laws and regulations to determine what restrictions apply to bonuses at FDIC and RTC. We also interviewed officials and gathered relevant documents at each of the five financial institution agencies—FDIC, RTC, OCC, OTS, and FRS—to determine what bonus policies and practices had been established.

To determine whether FDIC and RTC had sufficient internal management controls, we identified the management controls FDIC and RTC had incorporated into their respective bonus programs and used as a basis of comparison the controls required by law and implementing regulations for SES bonus programs at federal agencies. FDIC and RTC are not subject to the SES program requirements.

We obtained information from the financial institution agencies on bonuses they paid to their executives and from the Office of Personnel Management (OPM) on bonuses paid to SES executives. We did not independently verify that information.

We limited our review to bonuses paid for 1991 and 1992 to executive-level employees because only executive-level employees are eligible for bonuses at FDIC and RTC, and your letter specifically cited the 1991 and 1992 bonuses. FDIC and RTC do, however, pay cash awards to nonexecutive employees under a separate program.

We did our work between April 1 and June 30, 1993, in accordance with generally accepted government auditing standards.

Results in Brief

Essentially, bonus decisions at FDIC, RTC, and the other financial institution agencies are a matter of executive judgment because each has authority to set the compensation of its employees and no law limits the number or amount of bonuses that they can pay to their executives. The agencies have taken different approaches regarding bonuses (see app. I). The 1992 bonuses paid by FDIC and RTC to their executives were within the limits contained in their existing policies. In the end, the appropriateness of their bonus decisions is a judgment that rests with the agencies' leadership, as overseen by Congress.

FDIC's and RTC's bonus programs seemed to generally incorporate the controls required for SES bonus programs, with two exceptions that relate to establishing formal performance review boards and to setting individual performance plans for each executive at the beginning of performance periods (see app. II). The absence of these controls can have some detrimental effects. However, given the subjective nature of performance appraisals and the authority of agency heads to make final bonus decisions, it is difficult to conclude that bonus decisions at FDIC and RTC would have been any different for 1991 or 1992 if the controls required in the SES program had been a part of the bonus programs at FDIC and RTC.

Agency Comments

We discussed the results of our review with officials of each of the five financial institution agencies, who generally agreed with the information in our report. FDIC officials pointed out that they are currently doing a comprehensive review of their compensation system, and any changes that result will likely be implemented by RTC also. We also obtained written comments on a draft of this report from FDIC and RTC. In their written comments, FDIC and RTC officials said that the report contains a fair and balanced assessment of their executive bonus programs (see apps. III and IV).

As agreed with the Committee, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to other interested congressional committees, the Chairman of FDIC, the Chief Executive Officer of RTC, the Comptroller of the Currency, the Director of the Office of Thrift Supervision, the Chairman of the Board of Governors of the Federal Reserve System, and the Director of OPM. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix V. If you have any questions regarding the information in this report, please call me on (202) 736-0479.

Sincerely yours,

Gaston L. Gianni

Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues

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Abbreviations

FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FRS	Federal Reserve System
OCC	Office of the Comptroller of the Currency
OPM	Office of Personnel Management
OTS	Office of Thrift Supervision
RTC	Resolution Trust Corporation
SES	Senior Executive Service

Reasonableness of FDIC's and RTC's 1992 Bonus Decisions

Goals of FDIC's and RTC's Bonus Programs

Through discussions with Resolution Trust Corporation (RTC) and Federal Deposit Insurance Corporation (FDIC) officials and review of documents that they provided us, we determined that their primary purpose in awarding bonuses to their executives is to encourage and reward superior performance. An FDIC policy document from December 1986 states

> "The salary and bonus systems were developed to provide a flexible means by which management can consider job responsibility and performance in compensating employees at Executive Levels I, II, III, and IV. The incumbents of these positions are the executive staff of the Corporation and providing reasonably attainable salary and bonus incentives to these individuals will increase benefits to the Corporation through improved performance. To assure the effectiveness of the program, it is important that salary and bonuses be linked to superior performance and not be granted as a matter of routine."

The FDIC and RTC officials maintained that the bonuses are not used primarily as a recruiting or retention tool. Their purpose of encouraging and rewarding performance is essentially the same as the purpose of bonuses for Senior Executive Service (SES) members, which, by law, are designed "[t]o encourage excellence in performance." As the Office of Personnel Management (OPM) noted in its guidance in the Federal Personnel Manual, "Performance awards, commonly called 'bonuses,' recognize and reward excellence over a 1-year performance appraisal cycle by career appointees." The manual recognizes that the bonus program may act as an incentive for the retention of current employees. OPM officials, however, told us that the primary purpose of bonuses is to reward performance and that employee retention is a secondary purpose that is better achieved through other means.

Bonus Practices and Policies at FDIC and RTC

Essentially, bonus decisions at FDIC, RTC, and the other financial institution agencies are a matter of executive judgment since no law limits the number or amount of bonuses that they can pay to their executives. As we discuss next, they have taken different approaches regarding the awarding of bonuses. In the end, the appropriateness of their bonus decisions is a judgment that rests with the agency leadership, as overseen by Congress. Unlike most federal entities, FDIC and RTC, as well as the Office of Thrift Supervision (OTS), the Office of the Comptroller of the Currency (OCC), and the Federal Reserve System (FRS) have authority to set the compensation of their employees without regard to the basic rates of pay set forth in title 5 of the United States Code. In addition, they are exempt from the laws and OPM regulations governing the award of bonuses to SES members. FDIC has had this authority to set its compensation since its creation in 1933.

RTC, which was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), has no employees with the exception of its chief executive officer, a position created by law in December 1991. RTC is staffed with FDIC employees.

FDIC's policy regarding bonuses for executives was originally patterned after the SES system. In February 1981, FDIC's board of directors established a bonus program at FDIC effective for executive performance beginning in calendar year 1980. The board established this program after a number of federal agencies began paying bonuses to their SES employees "in order that Corporation employees in executive level positions may have the same opportunity to be rewarded for outstanding performance." By November 1989, however, FDIC's bonus program differed significantly from that of the SES system.

The FDIC board initially set 20 percent as a limit on the number of FDIC executives who could receive bonuses during any calendar year and expressed an expectation that awards would customarily be in the $5,000 range with "some rare cases" of $10,000 awards. FDIC paid bonuses to 20 percent of its 54 executives for their performance during calendar year 1980; 9 executives received $5,000 bonuses, and 2 received $10,000 bonuses. In November 1981, the board voted to revise FDIC's 1981 bonus program to allow up to 50 percent of executives to receive bonuses and to restrict the maximum bonus amount to $5,000. At that time, under the SES system, the maximum amount of bonus that an SES member could receive was 20 percent of the recipient's annual salary, and each agency was limited to awarding bonuses to no more than 20 percent of its SES members.[1]

The board set $7,500 as the maximum for 1982 FDIC bonuses and removed the 50-percent maximum participation to permit all deserving employees to receive bonuses. In August 1982, the board set the maximum amount for bonuses for 1983 at $15,000, which they based on their view of the many challenges and time-consuming demands confronting the corporation and its staff and then increased the 1983 maximum to $20,000 in December 1982. In December 1986, the board again revised FDIC's bonus program. It established a maximum bonus pool equivalent to 10 percent of

[1]The Civil Service Reform Act of 1978, which created the SES, set a limit of 50 percent on the number of SES members that could be given bonuses at an agency in any year. From fiscal years 1980 to 1983, Congress, through appropriations laws, set lower limits of 25 percent and then 20 percent. These further restrictions were not included in fiscal year 1984 appropriations laws, and the limit reverted to 50 percent. In November 1984, Congress removed the 50-percent statutory limitation and replaced it with a "bonus pool" limitation that, in effect, set a limit of 60 percent for agencies with more than four executives.

the aggregate scheduled annual salaries of FDIC executives, set 5 percent of the recipient's annual salary as a minimum amount for individual bonuses, and set 25 percent of the recipient's annual salary as a maximum amount for individual bonuses.

In February 1988, the board set $20,000 as the maximum individual bonus amount. In December 1988, the board raised the maximum individual bonus amount to $25,000 and authorized certain exceptions to that maximum. In November 1989, the board again raised the maximum, to $30,000, for 1989 bonuses. Although board minutes do not provide the reasons for the 1988 and 1989 increases to maximum bonus amounts, FDIC officials told us that the increased amounts were in recognition of the many new duties and increased difficulties that FDIC employees had to face. They cited as examples of the difficulties several large bank failures and new responsibilities for failed thrift institutions.

The board made no further changes to the bonus program after November 1989. Thus, board-imposed restrictions on FDIC's and RTC's bonuses for 1991 and 1992 bonuses were (1) an individual bonus maximum of $30,000, (2) a bonus pool maximum of 10 percent of executives' aggregate scheduled annual salaries, and (3) no limit on the number or percentage of executives who could be awarded bonuses during a given year.

Within this board-imposed framework, FDIC's chairman, through his deputy, annually specifies a target size for aggregate bonuses and sets maximum amounts and minimum amounts for individual bonuses for each executive grade level. Because RTC is linked to FDIC for the administration of its pay and benefits programs, it follows FDIC's lead on executive bonuses.

For 1992, FDIC's chairman set the maximum amount for individual bonuses at $30,000, which is equal to the limit imposed by the board but double the $15,000 maximum amount that had been set by the chairman for 1991. This limit represented a return, however, to the maximum set by the chairman for 1990 bonuses. As can be seen in table I.1, FDIC and RTC did not exceed the maximum limits set by the board or by the chairman when paying bonuses during the 3-year period.

Table I.1: Bonuses Paid to Executives at FDIC and RTC for 1990, 1991, and 1992

	Total bonuses awarded as a percent of executives' salaries		Percent of executives awarded bonuses		Maximum bonus permitted		Maximum bonus awarded	
Year	FDIC	RTC	FDIC	RTC	FDIC	RTC	FDIC	RTC
1990	7.4%	6.6%	86%	88%	$30,000	$30,000	$25,000	$25,000
1991	4.1%	4.9%	88%	70%	$15,000	$15,000	$15,000	$15,000
1992	5.7%	6.1%	66%	71%	$30,000	$30,000	$27,500	$25,000

As can also be seen from table I.1, the total bonuses that FDIC and RTC awarded for 1992 were respectively 5.7 percent and 6.1 percent of aggregate executive salaries, a considerable increase from the 1991 levels when the agencies awarded bonuses that totaled 4.1 percent and 4.9 percent of salaries, respectively. The 1992 levels, however, were actually lower than the 7.4-percent and 6.6-percent levels of 1990 bonuses at FDIC and RTC. FDIC officials said that maximum individual bonuses, as well as aggregate bonuses, were reduced from 1990 to 1991 at the direction of William Taylor, then Chairman of FDIC, who thought that it would be unseemly for FDIC to grant large bonuses to its executives at a time when the FDIC-administered Bank Insurance Fund was nearing insolvency because of failures in the bank industry. FDIC's financial statements showed the Fund to have a deficit of $7 billion at December 31, 1991, after 4 consecutive years in which losses to the Fund exceeded earnings. Improvements in the condition of the banking industry contributed to substantial improvement in the condition of the Fund during 1992, when it had net income of $6.9 billion. With the improved financial condition of the Fund at the end of 1992, FDIC and RTC restored the 1992 bonus limits to 1990 levels.

Comparison of FDIC, RTC, and SES Bonus Practices

Although FDIC and RTC are not subject to the restrictions on bonuses that apply to SES members, we compared the 1992 bonus practices of FDIC and RTC with federal agencies' bonus practices for SES members. OPM reported that 40 percent of all SES career appointees received a bonus during fiscal year 1992.[2] In contrast, 66 percent of FDIC executives and 71 percent of RTC executives received bonuses for 1992. The largest bonus awarded to an SES member for 1992 was $19,060, compared with $27,500 at FDIC and $25,000 at RTC. The law and OPM regulations limited 1992 SES bonuses at each agency (with the exception of agencies with four or fewer SES members) to

[2]OPM, Fiscal Year 1992 Biennial Report to the Congress on the SES.

3 percent of the executives' aggregate base pay. In contrast, FDIC executives were paid 1992 bonuses that totaled 5.7 percent of aggregate base pay, and RTC executives were paid 1992 bonuses that totaled 6.1 percent of aggregate base pay.

Since FDIC's and RTC's 1992 bonuses were within the maximum limits set by FDIC's board and did not violate any law or regulation, it is difficult to question the executive judgment that led to a return in 1992 to the bonus practices that existed in 1990. Ultimately, deciding the size and number of bonuses that could be considered reasonable is a judgment for Congress, FDIC, and RTC to make. Prompted by concern expressed by your Committee, top officials of FDIC and RTC recently discussed a proposal to more closely align their bonus policies with the system applicable to the SES.

Bonus Philosophies Differ Among the Financial Institution Agencies

In considering the reasonableness of FDIC's and RTC's 1992 bonus decisions in light of other financial institution regulatory agencies' decisions on similar matters, we found that each of the five entities has considerable flexibility in paying bonuses, and their philosophies regarding the use of bonuses differ greatly. Given the different compensation philosophies at the agencies, we do not believe that a comparison of the financial institution agencies' bonus practices is relevant to arriving at a judgment about the reasonableness of FDIC's and RTC's bonus practices. However, we are providing information on the bonus policies and practices of OTS, OCC, and FRS.

The OTS bonus program is used "to recognize good performance." The bonuses, along with merit increases to annual salary, comprise the annual payout to OTS executives based on annual performance appraisals.

OTS cut back dramatically on its bonuses for 1992 compared with 1991. For 1991, 41 (71 percent) of 58 OTS executives were awarded bonuses, which in aggregate equalled 2.7 percent of total OTS executives' base pay. The highest OTS bonus amount for 1991 was $10,573. For 1992, 15 (31 percent) of the 48 OTS executives received bonuses, which in aggregate equalled 0.5 percent of total executives' base pay. The highest OTS bonus amount for 1992 was $3,000. OTS officials said that the drop in aggregate executive bonuses and in the maximum individual bonus from 1991 to 1992 was due to budgetary cuts necessitated by the decline in OTS' operating revenue.[3]

[3]OTS' operating revenue is derived from assessments and fees that OTS receives from the thrift institutions that it regulates.

OTS' reduction in its bonus payout for 1992 from its 1991 level was similar to actions taken by FDIC and RTC for 1991 bonuses when they decreased the amounts of their bonuses from 1990 levels. OTS officials expressed the opinion that total compensation at the five entities is generally comparable.

OCC and FRS officials also maintained that their overall compensation packages are generally comparable to the compensation packages at FDIC and RTC even though OCC and FRS do not have a bonus program for their executives. According to an OCC official, FDIC's bonus program was considered in establishing OCC pay rates in 1991, with an eye toward achieving comparability. A bonus program was considered for OCC, but it was turned down by OCC's policy group. Instead, OCC considered FDIC's and RTC's bonus practices when setting its base pay salary rates, according to the OCC official.

Pay comparability is important to officials of FDIC, RTC, OTS, and OCC partly because of requirements regarding compensation imposed by FIRREA. Specifically, FIRREA, while recognizing that each agency has sole authority to set its own compensation and benefits, also requires FDIC, RTC, OTS, OCC, and certain other federal entities to inform each other concerning pay and benefits they establish and to seek to maintain comparability in these areas. FRS is not included in those FIRREA requirements. FRS officials said, however, that FRS strives to assist the FIRREA-designated agencies in achieving the goals of FIRREA's comparability requirements by providing them information on FRS' compensation policies and practices.

We did not determine the comparability of compensation packages at the five agencies because pay comparability was not within the scope of this assignment. Pay comparability is a very difficult determination to make. In an earlier report,[4] we noted that FIRREA neither defines "comparability" nor states how the agencies should go about achieving it. Each agency has policies that address a variety of pay matters, including (1) base pay, (2) bonuses or other one-time cash payments, (3) merit pay, and (4) geographic cost-of-living differentials. The types and amounts of additions to base pay vary at each agency, and differences exist in the noncash benefits available to the employees at the agencies, making any determination regarding comparability a complex task.

[4]Pay and Benefits: Information on Four Federal Banking Agencies (GAO/GGD-91-137BR, Sept. 30, 1991).

In our 1991 report, we pointed out that one of the purposes of the comparability provision was to avoid competition among the banking agencies for qualified staff. We reported that despite any pay differences that existed at that time, relatively few people in the employment categories we reviewed left one federal banking agency for a job in another.

During our current work, officials at OTS, OCC, and FRS uniformly expressed the opinion that bonuses given by RTC and FDIC to their executives do not have a discernible effect on the ability of their respective agencies to attract and retain qualified executives. In addition, they maintained that executives who leave OTS, OCC, and FRS seldom do so to take positions at FDIC or RTC. According to RTC officials, since RTC was created in 1989, only one executive-level employee has been hired by RTC from OTS, OCC, or FRS. Likewise, FDIC officials said that only two FDIC executives have been hired from any of the other financial institution agencies since January 1, 1991.

Adequacy of FDIC's and RTC's Internal Management Controls Related to Their Bonus Programs

Under the law applicable to the SES bonuses, bonus decisions must be based on performance appraisals that must be designed consistent with certain statutory standards. Under the topic of agency responsibilities, OPM's Federal Personnel Manual states that agencies are responsible for "ensuring that bonuses are determined in a fair manner, that they are truly based on performance, and that reasonable internal controls are developed to monitor this process."

OPM's guidance on internal management controls required in SES bonus programs is contained in OPM's regulations and the Federal Personnel Manual. OPM officials told us that there is no other OPM publication that provides guidance to federal agencies on reasonable internal controls for a bonus program. Nor did the OPM officials know of any other source for federal agencies seeking such guidance.

In addition, although OPM requires federal agencies to submit their SES performance appraisal plans to OPM for review and approval, OPM officials told us that they do not review and approve agencies' bonus plans or programs. OPM's only review of executive-level bonuses, according to those officials, consists of ensuring that aggregate bonus awards at each agency do not exceed the dollar limit for the agency. OPM officials told us that the decision of what constitutes adequate management controls over the bonus program is left to the agency head, who also has final authority for reviewing and approving the bonuses.

We identified existing management controls at FDIC and RTC through discussions with officials and a review of available bonus program documentation regarding the bonus process followed for 1992. The primary management control consisted of a written policy that was approved by the FDIC's board of directors in February 1981 and substantially revised in December 1986. It outlines the process to be followed in awarding bonuses, establishes a maximum for annual bonus pools, and establishes minimums and maximums for individual bonus awards.

FDIC's revised 1986 policy established as a maximum for the annual bonus pool an amount equal to 10 percent of the aggregate annual scheduled salary of the eligible executives. By comparison, the bonus pool limitation for SES members at a federal agency is an amount equal to 3 percent of the aggregate base pay of the eligible SES executives at that agency. FDIC's and RTC's policy specifies that if an executive is awarded a bonus, the bonus may not be less than 5 percent nor greater than 25 percent of the recipient's annual salary rate. The law governing SES bonuses specifies that if an SES member is awarded a bonus, the bonus may not be less than 5 percent, nor greater than 20 percent of the recipient's annual salary.

FDIC and RTC place no limit on the number or percentage of eligible executives that may receive a bonus during any given year. Since 1984, there has been no statutory limit on the number of SES members who can receive bonuses. However, due to the 3-percent limitation on the size of the bonus pool, no more than 60 percent of eligible employees can receive bonuses during a given year because of the requirement that the minimum individual bonus amount be at least 5 percent of base pay. An exception is allowed by OPM for agencies with fewer than five eligible executives.

The 1986 FDIC policy also specifies the process for selecting bonus recipients and determining bonus amounts. It clarifies that "unlike the salary program which involves the payment of a sum based upon anticipated performance, the bonus program will permit an after-the-fact award if the performance has indeed been superior." The policy states that

- Incumbents of positions working directly for members of the FDIC Board of Directors have their performance reviewed and bonus recommendations made by their principal to the Chairman.
- Division Directors have their performance reviewed and bonus recommendations made by the Chairman who makes final recommendations to the Board of Directors.
- Office Directors and other incumbents at the E-1 level and above have their performance reviewed and bonus recommendations made by their respective principals through a committee established by the Chairman which reports to the Chairman for a final decision.

For both 1991 and 1992, FDIC set the maximum aggregate bonus pool for its own executives as well as for RTC executives. FDIC provided guidance to RTC both years regarding the awarding of executive bonuses. RTC's 1991 bonuses were approved by the Chairman of FDIC. RTC's 1992 bonuses were approved by RTC's Chief Executive Officer.

RTC's 1992 executive bonuses were supported by paperwork that rated RTC's executives. Most RTC executives were rated on four general executive-level traits: (1) leadership, (2) management and organizational skills, (3) judgment, and (4) communication. Executives in RTC's Office of the Inspector General and a small number of other executives were rated using somewhat different rating criteria.

FDIC's 1992 executive bonuses were supported by paperwork that rated FDIC's executives. Most FDIC executives were rated on five executive-level traits. While the same five traits were not used to rate each executive, the most frequently used were (1) supervisory abilities, (2) job knowledge, (3) products, (4) judgment and problem-solving, (5) responsibility and independence, (6) organization and management skills, and (7) working relationships. FDIC's Office of the General Counsel and certain FDIC support units used somewhat different rating criteria for their executives.

The law governing SES bonuses requires that an SES member must have at least a "fully successful" rating in the most recent performance rating of record to be eligible for a bonus. The law also requires that agencies establish executive performance appraisal systems that will permit accurate evaluation of executive performance on the basis of job-related criteria and will encourage excellence in performance. To this end, agencies must submit initial plans for their executive performance appraisal systems, as well as significant modifications, to OPM for approval prior to implementation.

The law and implementing regulations on the executive performance appraisal systems for the SES require that performance plans be established for all executives prior to the beginning of an appraisal period. They also require that procedures be established that identify or prescribe the performance elements of an executive's position and designate those that are critical. OPM's regulations call for an initial rating of the executive's performance to be made at least annually by a supervising official and provided to a performance review board that has been established within the agency by the agency head. The performance review board makes recommendations to the agency head on the performance of the executives, including recommendations for bonuses. The agency head is to consider the recommendations of the performance review board, but OPM recognizes that the agency head "has the final authority as to who is to receive a bonus and the amount of the bonus."

In our work, we found that FDIC and RTC had not incorporated all of the controls required for SES bonus systems at federal agencies. Specifically, FDIC and RTC had not established formal performance review boards for making bonus recommendations, although an informal ad hoc committee reviewed 1992 bonus recommendations at each entity. We also found that neither FDIC nor RTC requires that performance plans be set for each executive at the beginning of performance periods. Neither established performance plans for each of their executives prior to the beginning of the 1992 appraisal period. Therefore, the 1992 ratings were not based on or linked to the achievement of performance plans established at the beginning of the performance period. In most cases, the ratings discussed performance in general terms, without specific examples. Fulfillment of organizational and unit goals was seldom cited.

The absence of these controls may increase the degree of subjectivity that a supervisor must apply in evaluating performance, may provide an additional basis for employees to challenge unfavorable appraisals, and can complicate any efforts to evaluate the soundness of individual bonus decisions. In this regard, prompted by concern expressed by your Committee, top officials of FDIC and RTC recently discussed the desirability of changing their personnel performance management systems so that they more closely conform to systems applicable to federal employees under title 5, chapter 43, of the United States Code.

FDIC and RTC are not subject to the legal and regulatory restrictions and requirements that apply to SES bonus programs at federal agencies. In addition, their executive performance appraisal systems have not been reviewed by OPM. FDIC's and RTC's bonus programs seem to generally incorporate the controls required to be part of SES bonus programs by applicable law and OPM guidance, except for those elements mentioned previously. Given the subjective nature of appraising performance, however, and the authority of the agency head to make final bonus decisions whether or not the agency is subject to OPM requirements, it is difficult to conclude that bonus decisions at FDIC and RTC would have been different for 1991 or 1992 if they had incorporated in their programs all of the controls required to be part of SES bonus programs.

Comments From RTC

RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

September 17, 1993

Mr. Johnny C. Finch
Assistant Comptroller General
U.S. General Accounting Office
General Government Division
Washington, D.C. 20548

Dear Mr. Finch:

This responds to your letter requesting Roger C. Altman, Interim President and Chief Executive Officer, Resolution Trust Corporation, review and provide comments to the draft report, Federal Deposit Insurance Corporation and Resolution Trust Corporation: Information on FDIC's and RTC's Executive Bonus Programs.

After careful review of the information presented in the report, we have no corrections nor do we have additional information we wish considered in the report. The analysis, evaluation and presentation of the information provides a true and accurate description of our Executive Level Bonus Program process.

Thank you for the opportunity to comment on the draft report. If you have any questions or need additional information, please contact Ms. Catherine V. Ralph, Acting Director, Office of Human Resources Management on (202) 736-3151.

Sincerely,

Dennis F. Geer
Vice President for Administration
and Corporate Relations

801 17th Street, N.W. Washington, D.C. 20434

Comments From FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

OFFICE OF THE CHAIRMAN

September 7, 1993

Mr. Johnny C. Finch
Assistant Comptroller General
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Finch:

Thank you for providing a copy of the draft report, Federal Deposit Insurance Corporation and Resolution Trust Corporation: Information on FDIC's and RTC's Executive Bonus Programs. We are in basic agreement with the findings of the draft report and consider it to be, on the whole, a fair and balanced assessment of our Executive Bonus Program. We appreciate the opportunity to comment on the draft.

Sincerely,

Andrew C. Hove

Andrew C. Hove, Jr.
Acting Chairman

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