United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Federal Services, Post Office, and Civil Service, Committee on Governmental Affairs, U.S. Senate

May 1990

FAILED THRIFTS

Better Controls Needed Over Furniture, Fixtures, and Equipment

141593

GAO

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

General Government Division

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May 25, 1990

The Honorable David Pryor
Chairman, Subcommittee on
Federal Services,
Post Office, and Civil Service
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

In June 1989, we reported to you on improprieties in the areas of contracting and property disposition at the Federal Savings and Loan Insurance Corporation's (FSLIC) FirstSouth Receivership in Little Rock, Arkansas.[1] Subsequently, you asked us to determine whether problems that we found at FirstSouth were commonplace and existed at other receiverships. Recognizing changes that were occurring in receivership operations, we agreed with the Subcommittee to assess FSLIC's disposition of furniture, fixtures, and equipment (FF&E) for thrift receiverships in the Southwest Plan[2] and additional receiverships' FF&E taken by FSLIC to furnish its Central Region in Dallas, Texas.

Our primary objective was to determine whether FSLIC disposed of FF&E in the most efficient and effective manner. However, as requested we limited our work primarily to FSLIC's Central Region. Appendix I contains more detailed information concerning our objectives, scope, and methodology.

Since we reported on FirstSouth, FSLIC reorganized its regional operations, including moving the freestanding receiverships, which had been operating at the sites of the failed institutions, into the FSLIC regional offices and assigning receivership responsibilities on a functional basis, i.e., employees were no longer assigned exclusively to one receivership but rather performed the same function across receiverships.

Subsequently, Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which abolished FSLIC and created the Resolution Trust Corporation (RTC) to handle the thrift failures from January 1, 1989, through August 9, 1992. Failures before

[1] Failed Thrifts: Allegations at FirstSouth Receivership in Little Rock, Arkansas (GAO/GGD-89-98, June 16, 1989).

[2] Specific program developed by the Federal Home Loan Bank Board to deal with the high concentration of insolvent thrifts in Texas and four neighboring states.

January 1989 became the responsibility of the Federal Deposit Insurance Corporation (FDIC).

Results in Brief

FSLIC was, and now FDIC and RTC are, dealing with billions of dollars in assets from hundreds of failed thrifts, and there is much work to be done in managing and liquidating these failed institutions. All parts of the process to liquidate the thrifts, regardless of their magnitude, should be done well. One of those parts is disposing of FF&E, which represents a relatively small proportion of the failed thrifts' total assets.

While FSLIC had many responsibilities in managing and liquidating the assets of the failed thrifts, it had not fulfilled its responsibility for the management and liquidation of FF&E. Planning for the disposal of FF&E from the Southwest Plan valued at about $4 million was not done until a year after acquisition of the assets had begun, and the planning that was done was incomplete. And contrary to applicable procedures, FSLIC contracted noncompetitively for several services related to the FF&E. After deducting expenses, FSLIC received about $57,000 on the sale of Southwest Plan FF&E appraised at about $3.3 million, suggesting that it may not have maximized revenue or minimized expenses. Further, FSLIC did not have adequate internal controls over its FF&E inventory and did not pay receiverships for FF&E taken to furnish its regional offices. FDIC has almost completed compensating the receiverships, but neither FDIC nor RTC have documented specific organizationwide guidance for disposing of FF&E.

Background

Congress enacted FIRREA on August 9, 1989, to deal with the savings and loan crisis and reform regulation of the industry. The act abolished the Federal Home Loan Bank Board (FHLBB), the thrifts' regulator, and placed its regulatory functions in the newly created Office of Thrift Supervision. The act created a new agency, RTC, to resolve institutions placed into receivership or conservatorship between January 1, 1989, and August 9, 1992. It also created a new insurance fund to resolve problem institutions after 1992. The assets, liabilities, and obligations of FSLIC were transferred to a new fund, called the FSLIC Resolution Fund. That fund is administered by FDIC.

Before the new law, the FHLBB, governed by a chairman and two members, handled thrift failures through FSLIC, a government corporation headed by an executive director. When a thrift became insolvent, the FHLBB would pass a resolution declaring the thrift insolvent, take it over, form a receivership, and appoint FSLIC as receiver. FSLIC would then try to sell all or part of the failed thrift. Assets and liabilities not transferred to an acquirer were generally liquidated by FSLIC as receiver for the failed thrift. Receiverships, separate and distinct legal entities, were supervised through FSLIC's Operations and Liquidations Division and, subsequently, FDIC's Division of Liquidation.

Under general principles of law applicable to receivers, FSLIC was required to act in a fiduciary capacity by managing and liquidating the receivership assets in an orderly manner and maximizing the return on their sale. Proceeds from the sale of receivership assets would be used to pay the claims of the institution's creditors. The FSLIC Insurance Fund would be one of these creditors, but it generally would have no absolute priority over the others.

According to FSLIC's Receivership Operation Manual, its Operations and Liquidations Division's primary role was to maximize the recovery of funds for the benefit of depositors and creditors of failed institutions. Maximizing recovery was achieved through asset management, restructuring of troubled loans within the institution, and subsequent liquidation of assets.

Although the bulk of a receivership's assets are loans and real estate, other assets, including FF&E, must be disposed. According to the Receivership Manual, FSLIC had the duty not only to maximize the return on their sale, but to dispose of them in a timely and efficient manner.

Throughout most of the 1980s, FSLIC usually operated its receiverships as separate entities, often on the premises of the failed thrifts. Receiverships were staffed by nonfederal employees—a managing officer and support staff from the defaulted institution selected by FSLIC. In early 1989, FSLIC began consolidating the receiverships into its regional offices and eliminating the freestanding receiverships.

Separate and distinct, the FHLBB implemented the Southwest Plan and placed 101 thrifts into receivership. FHLBB completed the transactions involving the thrifts between May and December 1988. The acquirers purchased approximately $18 million of FF&E from these institutions, with the remainder (approximately $4 million) becoming the responsibility of FSLIC as receiver.

Before FSLIC's Central Region was taken over by FDIC in August 1989, it was responsible for 20 non-Southwest Plan receiverships with $3.1 billion in total assets. As of April 12, 1990, according to FDIC and RTC officials, nationwide FDIC had 99 FSLIC receiverships with $10.4 billion in total assets, and RTC had 52 receiverships with $12.1 billion in total assets. We were unable to obtain the total amount of FF&E controlled by FDIC and RTC because, according to an official responsible for reporting statistics for the two agencies, those agencies do not separate FF&E from "other assets"[3] at the national level. However, it is clear that FF&E represents a relatively small portion of the receiverships' total assets.

As of August 9, 1989, FDIC absorbed the responsibilities for the management of FSLIC's receiverships. Throughout this report, we will refer to individuals in their capacity as FSLIC employees when their actions occurred before FSLIC was abolished, even though we obtained the information after some of them became FDIC employees.

FSLIC Did Not Take Appropriate Steps to Minimize Costs or Maximize Revenue on Southwest Plan FF&E

FSLIC did not adequately plan in a timely fashion for the disposition of Southwest Plan FF&E. As a result, FSLIC may not have maximized revenue or minimized costs for the receiverships. It was unclear who was responsible for the FF&E, headquarters or the Central Region. Planning for the disposition of FF&E was not done until 1 year after the first thrift was closed, and the planning that was done did not compare the cost of keeping the inventories with expected revenue. Also, the plan did not consider alternatives to maximize revenue. Selection of contractors on a noncompetitive basis did not insure that services were acquired at the lowest cost. And FSLIC Central Region officials failed to maintain adequate separation of duties for FF&E inventory control, raising questions as to whether FF&E was adequately safeguarded.

Minimal Proceeds on Southwest Plan FF&E

Through sales to FSLIC, direct sales to the public, and auctions, FSLIC's Central Region earned $2,471,483 in revenue from the sale of Southwest Plan FF&E. The FF&E was initially appraised at $3.3 million.[4] However, as table 1 illustrates, expenses almost equaled revenue.

[3] Includes FF&E, company automobiles, collateral on loans in default, and repossessed assets.

[4] Additional FF&E valued at $907,915 remained at the failed thrifts to be purchased by organizations that had agreed to pay the appraised value.

Table 1: Net Proceeds on FSLIC's Liquidation of FF&E From the Southwest Plan

Total revenue	$2,471,483
Total expenses	−2,414,309
Net proceeds	$57,174

Source: Southwest Plan FSLIC financial data obtained from the Dallas Consolidated Office, FDIC.

The largest portion of the expenses, $1,350,157, was for warehousing FF&E from June 1988 to December 31, 1989. Warehousing was expensive because FSLIC, operating without a disposition plan, rented a large amount of warehouse space to hold the FF&E while it attempted to dispose of it through direct sales to the public. The FF&E began filtering into the warehouse about 12 months before there was a plan, and an additional 2 months passed before the first auction took place. Appendix II includes more detailed information about revenue and expenses related to the Southwest Plan FF&E.

Untimely and Inadequate Planning

FSLIC's Receivership Operations Manual in use during this period required FSLIC to prepare a plan for the disposition of any asset, including FF&E, as expeditiously as possible. Formal plans had to be approved as part of FSLIC's process authorizing the disposition of assets.

On the basis of interviews with FSLIC officials, it is unclear whether the Central Region or headquarters was primarily responsible for handling the disposition of the Southwest Plan FF&E. However, it is clear that, according to FSLIC policy, the planning was to be done expeditiously. Also, the planning that was ultimately done did not consider alternatives to maximize revenue.

Confusion About Who Was in Charge

Neither FSLIC headquarters nor Central Region officials could identify a specific individual who was responsible for handling the Southwest Plan FF&E. Instructions in FSLIC's Pre-Takeover Manual show that takeovers of failed thrifts were normally a coordinated effort between FSLIC headquarters' Operations and Liquidations Division and the regional office where the takeover occurred.

However, the former Regional Director for the Central Region told us that Southwest Plan activities were not a normal case and were handled with a great deal of headquarters direction. He told us that instructions for handling the Southwest Plan receiverships and their FF&E came from FSLIC headquarters officials.

In addition, the former Regional Director said that the Central Region's Manager for Administrative Services/Miscellaneous Assets, who was responsible for contracting many of the services used for the Southwest Plan FF&E, reported directly to FSLIC headquarters officials on Southwest Plan matters. And the contractor who performed the majority of the services involving the Southwest Plan FF&E told us that he was initially engaged by an FSLIC headquarters Receivership Representative who coordinated thrift takeovers in the Southwest Plan for FSLIC headquarters' Operations and Liquidations Division.

The Receivership Representative said she was not aware of any FSLIC headquarters plan for liquidation of the Southwest Plan FF&E. FSLIC's Central Region Acting Director and Central Region Deputy Director for Finance said that FSLIC did not have a long-term plan for disposition of Southwest Plan FF&E. Central Region officials said its liquidation service contractor simply began selling the FF&E out of a rented warehouse in Houston.

Untimely Planning

The Central Region's formal plan for the sale of Southwest Plan FF&E, through a series of auctions, was approved in the region by the Central Regional Asset Review Committee on May 10, 1989, and at the national level by the Central National Review Committee on May 23, 1989. Since the first takeover of a thrift in the Southwest Plan occurred on May 13, 1988, 1 year had passed before a plan for liquidation was formalized and approved.

Inadequate Planning

The plan for the auctions did not go beyond the mechanics, and there was little attempt to project expenses. For example, the plan did not mention that about 2 months earlier, on March 3, 1989, FSLIC entered into a contract, cancellable on 30 days notice, for warehousing Southwest Plan FF&E, with a projected annual budget of $1,353,481. The plan stated that the Central Region had "FF&E valued at approximately $900,000." At the time of the plan, the projected expenses for warehousing exceeded the estimated value of the FF&E inventory.

The plan also noted that "The auction process is the only feasible means of liquidating the type of FF&E acquired through Savings and Loan failures." The plan did not present evidence that auctions were the only feasible means of liquidation and discussed only the failed attempt to sell FF&E out of the rented warehouse in Houston. Sales out of the warehouse between October 1988 and February 1989 totaled $322,198, or about 13 percent of the total sales for Southwest Plan FF&E.

The owner of the company that inventoried and appraised the FF&E also mailed brochures to prospective buyers advertising the FF&E for sale out of the Houston warehouse. Also, with FSLIC's approval, he opened the warehouse to the public daily and attempted to sell the FF&E.

The Central Region's Manager for the Receivership Activities Department said that the auction process was developed because FSLIC officials knew that FDIC would be assuming FSLIC's responsibilities, and FDIC used auctions to liquidate items. He said Central Region officials wanted to operate similarly to FDIC.

It appears to us that at least two alternatives, used by FDIC's field offices, might have been feasible and should have been given early consideration by FSLIC. One possible approach would have been to contract with an auction company to move the FF&E to the company's storage for liquidation within 60 days. This would have eliminated lengthy storage costs and high expenses for moving FF&E to warehouses rented by FSLIC. Another alternative would have been to allow liquidation companies to bid on the FF&E at each original location. The high bidder would have had the responsibility for the removal of all the FF&E from the premises within a few days. This option could potentially have taken FSLIC out of the FF&E business in a very short time at each location.

Noncompetitive Contracting

Contracting procedures used during this period by FSLIC's Central Region required all services not required on an emergency basis to be obtained on a competitive basis. We found that many services related to Southwest Plan FF&E were acquired on a noncompetitive basis. And none of the information in the contract files we reviewed revealed that an emergency existed or that the contracting was done under emergency circumstances.

FSLIC did not issue uniform agencywide contracting procedures for its regions and receiverships until May 1, 1989. Before that time, several regions had developed procedures for awarding contracts. The Central Region had adopted procedures developed by the Western Region.

The Central Region's Contracting Manager pointed out in a memorandum to the acting Regional Director, dated December 28, 1988, that FSLIC had paid four firms $1,021,127 for communications equipment, inventory and appraisal, moving, and warehousing on a noncompetitive basis. These four firms had the same ownership. As of December 31, 1989, the

Central Region had paid the firms a total of $2,054,177, which included $1,350,157 for warehousing FF&E from the Southwest Plan.

The Central Region's Manager for Administrative Services/Miscellaneous Assets, who was responsible for acquiring these services, is no longer employed by FSLIC's successor, FDIC, and we could not locate him. Therefore, we could not determine the circumstances surrounding contracting for these services. However, the Central Region's Manager for the Receivership Activities Department said that the Central Region allowed one of these four firms to provide warehousing in Dallas on a noncompetitive basis because this contractor had previous experience providing warehousing in Houston for the Central Region. The receivership manager also said that no consideration was given to any other contractor.

No Separation of Duties

Widely accepted standards for internal controls require the separation of key duties in transactions to minimize the risk of loss.[5] To reduce the risk of error, waste, or wrongful acts and to reduce the risk of such problems going undetected, no one individual or company should control all key aspects of a transaction or event.

The Central Region's Manager for the Receivership Activities Department and the Senior Accountant who supervised accounting for the Southwest Plan FF&E told us that the four firms discussed above had inventoried, appraised, moved, stored, maintained, and sold items of Southwest Plan FF&E out of the warehouses. Again, the Manager for Administrative Services/Miscellaneous Assets, who was responsible for the concentration of duties in these firms, is no longer employed at the Central Region, and we could not locate him to find out why this arrangement was permitted. Central Region officials told us that the FF&E had been handled without appropriate controls because the Central Region did not have procedures to carry out these activities. Additionally, they said a large volume of FF&E had to be handled in a short period of time.

Although we have no evidence nor are we suggesting that any inventory was stolen or that abuse occurred, the arrangement that FSLIC entered into with several companies owned by one individual handling all

[5] Accounting Series: Standards for Internal Controls in the Federal Government, United States General Accounting Office, 1983.

aspects of key transactions was not consistent with good internal control standards. For example, having companies owned by the same person inventory, appraise, and move the FF&E, offered an opportunity to simply not include certain items of FF&E in the inventory lists and move that FF&E to the owner's warehouse. Further, with the same companies inventorying, appraising, moving, and selling the FF&E, the individual could have discounted the value of specific FF&E items included in the inventory by underappraising them and then through "dummy buyers" simply could purchase the discounted items to sell for his/her own use.

FSLIC Has Not Fully Reimbursed Its Receiverships for FF&E

FSLIC's Central Regional Office was not compensating receiverships for FF&E taken by FSLIC and had no apparent plans to do so. Without compensation, the value of the FF&E could not be included in the proceeds available to pay the claims of the thrifts' creditors. After we brought this matter to the attention of FSLIC regional officials, we later determined, on the basis of FDIC calculations, that FSLIC should have compensated receiverships located in the Central Region $1.9 million for FF&E used to furnish regional offices. FDIC has compensated the receiverships. FSLIC's other two regional offices had also been using receivership FF&E and not compensating them for its use. FDIC has paid $548,585 to receiverships in the Eastern Region and $6,870 to receiverships in the Western Region. FDIC is in the process of completing the compensation to the receiverships in the Western Region.

In February 1989, FSLIC revised its Receivership Manual to emphasize that FSLIC policy of maximizing return applied not only to its larger assets, but also to other assets, including FF&E, and to require the disposition of FF&E be done in a timely and efficient manner. According to FSLIC policy, a receivership must be compensated for FF&E used by a regional office, but a freestanding receivership could use the FF&E and liquidate it upon termination.

In the past, FSLIC's Central Region was compensating the receiverships for FF&E used in its office but discontinued the practice in 1986 because physical tracking of the furniture was time consuming. The Deputy Director for Finance for the FSLIC Central Region told us that in late 1985 regional officials reviewed the administrative cost of tracking the FF&E for the purpose of compensation and decided that the practice was not cost effective. He also said, however, that during this period there was no lack of accounting personnel to maintain the records to compensate the receiverships. Regional officials simply decided to halt the practice.

After our initial inquiries into the compensation issue the Central Region's Senior Accountant for Financial Reporting attempted to determine the amount of compensation owed to the receiverships, but complete records for each receivership were not available. The Central Region had not followed procedures to properly account for FF&E once it left the failed institutions. FDIC later determined that the most reasonable basis on which to compensate the receiverships was to distribute the proceeds on a percentage basis according to the book value of total FF&E at each receivership at the time of takeover.

FSLIC initially had contracted for each failed thrift that went into receivership to be inventoried and appraised. These initial inventories identified assets, including FF&E, by receivership and noted a value for each item. However, during movement of the FF&E from FSLIC's warehouse to the Central Region's offices, the moving consultant hired by the Central Region's Manager for Administrative Services instructed moving company personnel to remove inventory identification tags.[6]

Further, there was no system for maintaining current locations of FF&E items after the inventory was done. According to Central Region officials, due to movement of both personnel and items of FF&E within the regional offices and the failure of Central Region personnel to update inventories, the Region lost its ability to associate the value of FF&E items with the correct receiverships.

In November 1989, FDIC headquarters asked its consolidated offices, which were formerly FSLIC regional offices, to identify for payment FF&E taken from the receiverships. That same month, FDIC Division of Liquidation's Dallas Region contracted for a new inventory of FF&E to determine the total amount and value of receiverships' FF&E that was being used. On the basis of this inventory and appraisal, and data from FDIC Division of Liquidation's Dallas Region, we found that the receiverships in FSLIC's Central Region should be compensated $1.9 million. Non-Southwest Plan FF&E represented $1.3 million of the total, and Southwest Plan FF&E accounted for $617,975. According to FDIC officials, the receiverships have been compensated.

On the basis of our work in the Central Region, we asked FDIC headquarters officials if the other two former FSLIC regional offices had taken FF&E from the receiverships without compensation. According to an FDIC official and documents we received, FDIC paid $406,287 to receiverships

[6]This moving consultant was not associated with the four companies mentioned earlier.

in the former FSLIC Eastern Region in Atlanta and $142,297 to receiverships in the former Region's area office in Chicago. This latter amount included $74,260 for FF&E retained by FDIC and $68,038 sold at auction. In addition, FDIC paid $6,870 to receiverships for FF&E it kept that was used by FSLIC and, as of May 10, 1990, was in the process of auctioning the remaining FF&E in the former Western Region in Los Angeles.

In contrast to the way the FSLIC's Central Region handled FF&E, the Closings Manager in the FDIC Division of Liquidation's Dallas Region told us that when it takes over an insolvent bank, FDIC personnel take the inventory, and each item of FF&E is tagged with a unique inventory number that is not removed until the item is sold. FDIC does contract for appraisals. In addition, FDIC's policy is to not purchase FF&E from failed banks for use in its regional offices.

Need for FDIC and RTC Policies on FF&E Disposal

The FDIC Credit Manual and Operations Manual, which are used for organizationwide policy, do not provide specific guidance for disposing of FF&E. According to FDIC Division of Liquidation officials who handled the disposition of FF&E at the national level, these manuals are the only source of instructions. FDIC's Associate Director for Operations in the Division of Liquidation said FDIC's policy is to handle FF&E similar to the way it disposes of assets in the "Other Assets" category, i.e., convert these assets to cash in the most efficient and effective manner possible. FF&E is categorized as other assets in the Credit Manual.

The Supervisory Liquidation Specialist for Property Management in the FDIC Division of Liquidation's Dallas Region provided us with detailed instructions for disposing of FF&E developed by its Addison Consolidated Office. The Supervisory Liquidation Specialist told us that each consolidated office in the Dallas Region has developed similar guidance, but there is no regional level guidance or manual.

FDIC regional officials in New York City and San Francisco said that they were not aware of any regional guidance on disposition of FF&E developed in their regions. They told us that the Credit Manual was the only guidance they used. However, we found that New York's Orlando Consolidated Office had developed procedures for inventorying and disposing of FF&E similar to those developed in Dallas' Addison Consolidated Office.

An RTC headquarters official said that RTC has not yet developed procedures for handling FF&E. The official said RTC would be using FDIC procedures in the interim. The Deputy Regional Director for Asset and Real Estate Management in RTC's Dallas Regional Office—one of RTC's four regional offices—said his office would be using the FDIC Credit Manual and approach to handling FF&E. Appropriate guidance is especially important for RTC because its authorizing legislation mandates that it extensively use the private sector, where practicable and efficient, to assist in managing and disposing of assets.

Conclusions

We recognize that FF&E was a relatively small portion of FSLIC's and will be a small portion of RTC's and FDIC's overall asset management and disposition responsibilities. However, FF&E represents assets that need adequate controls and management oversight.

FSLIC did not carry out its responsibility to insure that the FF&E of the receiverships was effectively managed and liquidated. FSLIC headquarters and regional officials did not follow FSLIC policy on planning; contracting was not done on a competitive basis; and sound internal control standards of separation of duties were not observed. As a result, FSLIC may not have fulfilled its responsibility to maximize the recovery of funds from the sale of FF&E.

Furthermore, FSLIC should have promptly compensated the receiverships for FF&E when it was taken and placed in the FSLIC offices for its use. Adequate headquarters monitoring of regional activities, not only in the Central Region but in other regions, appeared to be lacking in this area. FDIC is now responsible for the FSLIC receiverships and is in the process of completing compensation to the receiverships for the FF&E.

Because of reorganizations and changes in personnel in FSLIC's receivership operations, we could not identify all the individuals who had not carried out their responsibilities to the receiverships. However, the Executive Director of FSLIC and the Chairman of FHLBB were ultimately responsible.

Even though the FHLBB has been abolished and the functions of FSLIC's Operations and Liquidations Division have been taken over by FDIC and RTC, the problems we found in FSLIC's Central Region can occur in other regions without specific policies and procedures addressing the control and disposition of FF&E, as well as without vigilance on the part of top officials, in the agencies now responsible for taking over failed thrifts.

FDIC and RTC, without (1) documented specific organizationwide policies and procedures to handle the disposition of FF&E from failed thrifts and (2) adequate monitoring of adherence to these policies and procedures, could run into problems similar to those FSLIC had with planning, controlling, and disposing of FF&E. We believe that these two agencies need to document, as a minimum, specific policies and procedures dealing with planning for disposing of FF&E, alternative ways to dispose of FF&E in the most timely manner to maximize return to the receiverships, contracting on a competitive basis when possible to insure minimum cost, and separation of duties in handling FF&E to ensure its adequate safeguard while in the hands of FDIC and RTC.

As RTC prepares to carry out its important responsibilities under FIRREA, it needs to ensure that the problems that FSLIC had managing and disposing of FF&E are not allowed to be repeated in other asset management areas such as real estate and securities, where there is greater risk because of the substantially larger dollar values involved. We believe that the problems that existed at FSLIC in dealing with FF&E illustrate the importance of having specific policies and procedures for managing and disposing of assets in general. Problems can occur without an adequate system of internal controls for ensuring that policies and procedures are in fact implemented.

In addition, because the new legislation requires RTC to make extensive use of the private sector to manage and dispose of assets from failed thrifts, RTC will be at even greater risk. Therefore, it becomes extremely important that RTC (1) develop specific policies and procedures for managing and disposing of assets, (2) adequately staff and train its field offices, and (3) develop systems that will permit adequate oversight and monitoring of private sector contractors chosen to provide asset management and disposition services.

Recommendations to the Chairmen of FDIC and the RTC Oversight Board

To ensure the most profitable and efficient disposition of FF&E from failed financial institutions, we recommend that the Chairmen of FDIC and the RTC Oversight Board

- document specific organizationwide policies and procedures on control and disposition of FF&E covering such areas as planning, contracting, and internal control; and
- monitor the adherence to policies for control and disposition of FF&E.

Agency Views

As requested by the Subcommittee, we did not obtain written comments from FDIC and RTC. We did, however, discuss the contents of our report with FDIC and RTC officials, who generally agreed with the facts and recommendations.

An RTC official stated that RTC, as allowed by FIRREA, will be operating in accordance with existing FDIC policies and procedures until it amends FDIC's policies and procedures and adopts its own set of regulations and guidelines in implementing the specific goals of the RTC Oversight Board's strategic plan for RTC's functions and activities. In addition, the RTC official said that draft RTC asset disposition manuals are currently in the review process, and RTC is well aware of the importance of adequate internal controls over FF&E and other assets.

FDIC officials provided us with documentation that appropriate FDIC approvals have been given to pay the receiverships for FF&E taken by FSLIC to furnish its offices. According to the FDIC officials, the receiverships have been or are in the process of being paid. They also said that although existing FDIC policies and procedures do not specifically address FF&E, it is covered in the "Other Assets" section of the Credit Manual and is monitored similarly to other assets. FDIC officials provided us with additional views and information, which we have incorporated in this report where appropriate.

As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. After that time, we will send copies of the report to the Chairmen of FDIC and the RTC Oversight Board and to other interested parties. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix III. If you have any questions, please telephone me on 275-5074.

Sincerely yours,

Bernard L. Ungar

Bernard L. Ungar
Director, Federal Human Resource
Management Issues

Contents

Abbreviations

FDIC	Federal Deposit Insurance Corporation
FHLBB	Federal Home Loan Bank Board
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FSLIC	Federal Savings and Loan Insurance Corporation
FF&E	Furniture, fixtures, and equipment
RTC	Resolution Trust Corporation

Objectives, Scope, and Methodology

Our primary objective was to determine whether FSLIC disposed of FF&E in the most efficient and effective manner. Our secondary objectives were directed at determining whether FSLIC had employed appropriate internal controls in managing FF&E for its receiverships and whether its disposition policies and practices maximized the return to the receiverships. As agreed with the Subcommittee, we focused our review on FSLIC's Central Region, now part of FDIC's Dallas Region.

We reviewed FSLIC's Receivership Operations and Contracting Manuals to determine what policies, procedures, and internal controls were in existence for inventorying, appraising, and disposing of FF&E. Because FDIC absorbed FSLIC's receiverships in August 1989, we reviewed FDIC's Credit and Operations Manuals. We also reviewed policies and procedures from judgmentally selected regional and consolidated offices to determine guidance provided on disposition of and controls for FF&E where they were available. We also reviewed and analyzed financial data from the Southwest Plan sales and auctions of FF&E to obtain information on revenue and expenses.

We interviewed FSLIC headquarters and Central Region officials and applicable contractors to determine how the inventories, appraisals, and disposal of FF&E were conducted. Also, we interviewed FDIC headquarters and regional officials in Dallas, New York City, and San Francisco and Consolidated Office officials in the New York and San Francisco regions to determine FDIC policies and procedures for FF&E. We interviewed RTC headquarters and Dallas Regional Office officials to determine whether RTC has policies and procedures in place for handling and disposing of FF&E. We also interviewed FDIC Inspector General officials and reviewed their investigative files that related to receivership activities.

Because some of the FSLIC regional officials were no longer employed by FDIC, we could not always pinpoint responsibilities or determine reasons for certain actions taken.

Our work was done between September 1989 and April 1990 in accordance with generally accepted government auditing standards.

FSLIC's Liquidation of Southwest Plan Furniture, Fixtures, and Equipment Revenue and Expenses

Revenue	Fair market value	Sales
Warehouse sales to public	$312,262	$322,198
Sold to FSLIC entities	617,975	617,975
Houston auction I	853,152	733,133
Dallas auction I	388,512	404,956
Houston auction II	846,214	277,109
Dallas auction II	292,665	116,112
Totals	**$3,310,780**	**$2,471,483**
Expenses		
Warehouse rent		$1,350,157
Inventory and appraisal		255,579
Moving and hauling		596,015
Auction commissions		118,637
Salaries and wages		81,312
Travel		12,609
Total		**$2,414,309**
Net proceeds		**$57,174**

Source: Southwest Plan FSLIC financial data obtained from the Dallas Consolidated Office, FDIC.

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