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Report to the President and Chief Executive Officer, Resolution Trust Corporation

August 1992

RESOLUTION TRUST CORPORATION

Disposal of Furniture, Fixtures, and Equipment Needs Improvement

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Washington, D.C. 20548

General Government Division

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August 13, 1992

The Honorable Albert V. Casey
President and Chief Executive Officer
Resolution Trust Corporation

Dear Mr. Casey:

Congressman Jim Leach asked us to look into how the Resolution Trust Corporation (RTC) managed and disposed of furniture, fixtures, and equipment (FF&E), especially unusual assets such as aircraft and artwork. This report discusses the information we provided to Mr. Leach and includes recommendations for improving the management and disposition of these assets.

Results in Brief

RTC has developed policies and procedures for managing and disposing of FF&E. However, its controls over these assets do not ensure that they are disposed of economically and efficiently while maximizing revenues. Problems exist because (1) marketing plans do not always encourage using the most effective methods to dispose of FF&E and (2) RTC has not defined the dollar value of nominal value assets; consequently these low-value items may be handled inefficiently.

Marketing of FF&E is also hampered because inventories and appraisals are not always done promptly. Although RTC has abandoned its national FF&E inventory system, it still needs to focus attention on developing accurate inventories at each thrift to help local officials quickly establish control over these assets and dispose of them faster.

Background

FF&E is only a small part of the total assets under RTC's control; still, the book value of FF&E held by receiverships, as of December 31, 1991, was $362.6 million.[1] It consists of a variety of assets ranging from low-value items—office supplies, older personal computers, calculators, desks, chairs, rugs, pictures, and decorative plants—to high-value items, such as original artwork, newer personal computers, computer workstations, capitalized equipment leases, automobiles, and other vehicles normally associated with the operation of a business. Also included in the FF&E category are various unusual high-value assets. These assets have included such items as Thoroughbred race horses and brood mares, a 36-foot

[1]This figure does not include the value of FF&E owned by conservatorships, or subsidiary corporations of conservatorships and receiverships, as RTC does not record these assets on its corporate books.

carousel complete with 30 horses and 2 chariots, and a magic memorabilia collection carried on the thrift's books at no value, all of which RTC sold for about $2.2 million.

The artwork and other unique FF&E assets often reflect the tastes and interests of owners and officers of the failed thrifts and were often collected by thrifts for their decorative qualities and/or their investment value. Unusual assets were also pledged as collateral for loans, only to become part of thrift inventories when the borrowers defaulted on the loans.

The general public is afforded the opportunity to acquire FF&E assets through sales events, such as auctions and bid solicitations, usually advertised in local newspapers. Retail outlets and tag sales are also used to sell FF&E directly to individual buyers. The primary difference between these two approaches is that retail sales are generally handled through RTC-operated retail store outlets; tag sales are run on the premises of the thrift selling the items, often while it is winding down its operations. FF&E assets are sold separately from other assets, such as securities, loans, and real estate.

Objective, Scope, and Methodology

Our objective was to assess the adequacy of RTC's management and disposal activities for FF&E. We did our work primarily at RTC's Coastal Consolidated Field Office (CFO) at Costa Mesa, CA, and at three selected large Southern California thrifts—Imperial Federal Savings, San Diego; Mercury Federal Savings and Loan, Huntington Beach; and Columbia Savings and Loan, Beverly Hills—handled by the Coastal CFO.[2] We also visited the Lincoln Savings and Loan FF&E retail warehouse in Irvine, CA, and the Mercury Federal Savings and Loan FF&E retail store in Huntington Beach, CA. In order to get a national perspective of RTC's FF&E management and disposal activities, we did work at RTC headquarters in Washington, D.C., the four regional offices (Eastern Region, Atlanta, GA; North Central Region, Kansas City, KS; Southwest Region, Dallas, TX; and the Western Region, Denver, CO); and at the CFOs in Dallas; Denver; and Phoenix, AZ.

We reviewed RTC's policies and guidance for the control, management, and disposal of FF&E assets. We also reviewed the guidance and procedures issued by regional offices and CFOs. We interviewed RTC officials at the offices visited, obtained summary data on the value of FF&E managed by

[2]The Coastal CFO relocated to Newport Beach in December 1991.

RTC, and reviewed selected documents on the disposal of these assets. Further, we reviewed the design and development contract for the inventory control system and the inventory and appraisal contract, and we discussed these contracts with RTC headquarters and contractor officials.

Our review was done between July and December 1991 in accordance with generally accepted government auditing standards.

Effective Marketing and Sales Methods for FF&E Are Not Encouraged

When RTC is appointed receiver of a federally insured thrift, one of its duties is to sell that thrift's assets. As a receiver, under general principles of law, it must act in a fiduciary capacity by managing and liquidating the assets in an orderly manner and maximizing return on sales. Also, under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, RTC has a specific statutory mandate to maximize net return when selling the assets of failed thrifts.

In developing marketing plans, handling and disposal costs are not always analyzed to ensure that effective and appropriate strategies are used to dispose of FF&E assets. The RTC directive on FF&E, issued September 27, 1991, which was in place at the time we did our field work, did not discuss the need for any kind of analysis. It stated only that "The method of sale used should be based on the type of assets, as well as the time and cost constraints that affect the asset." On January 21, 1992, RTC issued a revised FF&E directive, but this statement was not changed. Although RTC headquarters officials believe that the policy statement implies that an analysis of applicable handling and disposal costs should be made, managing agents were not always assessing handling and disposal costs in making disposition plans for their FF&E assets. If these costs are not considered, the most appropriate method to maximize the net return to RTC may not be chosen. Headquarters officials acknowledged that field implementation of the policy needs to be monitored more closely.

Also, RTC's policy regarding donations of FF&E states that "items determined to have nominal value after attempts to market and sell the items have been unsuccessful, should be donated to nonprofit organizations." The policy, however, does not define "nominal value." Further, the policy is silent on when it would be more cost effective to donate items before attempting to market them.

If some items, such as plastic wastebaskets, light bulbs, office supplies, and older equipment and furnishings, that are obviously of low or nominal value, can be marketed and sold with virtually no marketing costs, such as in an on-site tag sale or including them in an auction being held on-site for higher valued FF&E assets, this should be done. However, if it is estimated that the marketing costs will exceed the estimated recovery value, donation would appear to be more cost effective.

For example, in October 1991, we visited Lincoln's retail warehouse—leased space—where its FF&E was displayed for sale; and Mercury's retail store—in its former headquarters building—where some of Mercury's FF&E was available for sale to the public. The items on sale at the Lincoln retail warehouse included wastebaskets priced at $1.00 each; unframed prints priced at $25 each; two-drawer nonfireproof file cabinets priced at $75 each; and a variety of office furniture pieces, including desk chairs priced at less than $100 each. The items on sale at Mercury's retail store were mostly basic, relatively inexpensive office furniture and equipment, including desks and chairs with prices ranging from $70 to $80 each.

We did not attempt to determine the effect of RTC's policy to market before donation because it would have been costly and time consuming since the needed information was not readily available. However, we observed such items being marketed in retail outlets where funds were spent to inventory, appraise, ship, and store items until they could be sold. In addition, there were salary costs for the RTC or contractor personnel who had to manage the assets until they were sold. Given the expected sales proceeds, the effort and resources that were being spent on the sale of these low-value assets appeared questionable to us.

As a conservator and receiver, RTC has a fiduciary responsibility to maximize the net proceeds from the disposal of assets placed under its control. In order to do this, it must assure itself that the costs of handling and disposal do not exceed the estimated recovery value of the assets. After determining the value of the asset, the managing agent or other RTC official should estimate the costs to market and hold it. If those costs exceed the estimated recovery, we believe it would be appropriate to donate the item to a nonprofit organization without spending more resources to market and hold the asset. Depending upon how or at what level RTC chooses to define nominal value, assets in poor condition or that use obsolete technology, such as some of the older personal computer models, might also fall into this category.

RTC needs to clearly define "nominal" in terms of dollar value. It also should eliminate the requirement to market nominal value assets before they can be donated provided it is determined that donating the assets would be more cost effective than holding and selling them. Further, RTC may also want to donate other low-value items that exceed the defined nominal value if the estimated holding and disposal costs of these assets exceed their estimated recovery value.

RTC officials agreed that they needed to define nominal value and that this would make it easier for field personnel to implement the policy consistently. They also acknowledged that, on a case-by-case basis, it may be more cost effective, due to such factors as location, market, and condition, to donate rather than sell some assets that exceed the defined nominal value.

Inventories and Appraisals Not Done in a Timely Manner

The value of FF&E assets is relatively small compared to total assets. Nevertheless, given the nature of some of the items (small portable items, such as computers, office equipment, and valuable artwork), FF&E generally has a higher risk of misappropriation than would certain securities, loans, or real estate. Therefore, for those assets that exceed the nominal value criteria, RTC needs to ensure that it has adequate internal control over these high-risk assets. To do this, it should inventory and set a value for these assets as soon as possible after a thrift comes under its control.

RTC's Asset Management and Disposition Manual states that "An inventory should be completed at the time of conservatorship on all furniture, fixtures, equipment, artwork, and other personal property (FF&E) with an estimated value of $50.00 or more." To assure that internal control standards for identifying and safeguarding assets are met, inventories need to be completed as soon as possible. However, this was not done promptly at the majority of thrifts at the Coastal CFO as of July 31, 1991.

Inventories and appraisals for 26 of the 32 thrifts were not completed until after the thrift had entered receivership. Thrifts normally remain in conservatorship for an average of 10 months. Inventories at eight thrifts and appraisals at nine thrifts were not completed until, or were still pending, 7 or more months after the thrifts entered receivership. One thrift's inventory and appraisals were not completed until 21 months after it entered receivership.

When a thrift is initially taken over by RTC, it is put into conservatorship. RTC assumes supervisory control of the thrift and appoints a managing agent. As conservator, the managing agent is responsible for collecting, inventorying, and safeguarding the thrift's assets and records. Once the thrift is resolved, it is placed in receivership, where RTC manages its closing. An RTC official told us that the managing agent, who is responsible for the inventory and appraisal, should not sell any FF&E without first determining its value.

A managing agent has the authority to contract for inventories and appraisals. This can be done through local contractors or by issuing task orders under a national contract with Day and Zimmermann, Incorporated (DZI), for inventory and/or appraisal services. However, one RTC official told us that FF&E represents a relatively small dollar amount of assets, especially when compared to other asset types owned by a thrift. As a result, priority is placed on inventorying and controlling other assets, such as cash, securities, real estate, and loans, while FF&E is often ignored.

When we discussed these issues with RTC headquarters officials they agreed that it was important to get the inventory and appraisals done as soon as possible after a thrift is placed under RTC control. However, they were not sure that a strictly enforced deadline was realistic because (1) FF&E assets are among the lower priorities managing agents must deal with when they take over a thrift and (2) thrifts range widely in size, from very large thrifts with many geographically dispersed branches to very small thrifts with one small office. However, they agreed that the requirement could be written in such a way, possibly using a range or span of time, based on the size of the thrift, in which inventories and appraisals were to be completed, to give managing agents some flexibility and still establish an accountability control over these important activities.

Nationwide FF&E Inventory Control System Abandoned

RTC's nationwide inventory control system (ICS) was intended to give RTC an accurate and complete FF&E inventory. However, RTC officials in Washington told us that the inventory data were inaccurate and incomplete. It would have required revisions to ensure that it provided an accurate and complete inventory of FF&E. Problems included inventory remaining on the system well after it had been sold and mass deletions of inventory from the system without verification that it had been sold. The system contractor also told us that leased items, which should not have been entered into the inventory as RTC assets, were not always identified to its staff and thus were entered into the system incorrectly.

In order to create a nationwide inventory of FF&E assets, RTC awarded a contract to DZI in May 1991 to customize and implement, in consultation with RTC, a fully integrated FF&E inventory control system; maintain a national database center; perform FF&E inventories and appraisals on a task order basis; and bar code and enter FF&E inventories onto the database. The system costs exceeded $100,000 as of February 1992, with another $1.06 million billed to RTC for inventory and appraisal services done by DZI under the contract. Still, the system did not provide accurate, timely, complete, or reliable data on the FF&E inventory.

Because FF&E assets are disposed of locally, we suggested to RTC officials in December 1991 that a nationwide detailed inventory of all the FF&E under RTC control might not be worth the cost of developing and maintaining a national system. Instead, detailed inventories could be maintained at the local thrift level. RTC officials told us that if the ICS information could not be improved, they would consider dismantling the system. Subsequently, because problems with ICS persisted, RTC decided to abandon the system and rely on local manual data and automated systems to collect and maintain FF&E data.

Conclusions

FF&E represents only a small portion of the assets under RTC control; still, because of its fiduciary responsibilities, RTC needs to maximize the net recovery on these assets. To do this, RTC needs to ensure that managing agents develop marketing and disposition plans for these assets that take into account holding and marketing costs so that RTC can recover as much as is reasonably possible on their disposal. Also, RTC needs to define "nominal value" by assigning a dollar value to the term. Further, it should eliminate the requirement that nominal value items be marketed before they can be donated to nonprofit organizations or agencies, such as the local school district, without incurring the expenses of marketing these items if RTC determines that donating the assets would be more cost effective than holding and selling them.

Further, we believe that RTC should donate to nonprofit organizations any low-value assets that have not sold while on-site at the thrift for which the costs of moving and storing would exceed the estimated recovery value of the item rather than spend further resources in an attempt to dispose of them. In this way, RTC could focus its marketing efforts on those FF&E assets that are valuable to ensure that a reasonable return is realized on their sale.

RTC policy should stipulate a period of time, based on the size of the thrift, in which inventories and appraisals are to be completed once a thrift has entered conservatorship and should not require the inventory and appraisals of nominal value assets. This should not pose a problem since the thrift can contract out to have these services performed. The managing agent would be able to begin disposing of these assets in a timely manner and adequately safeguard valuable assets during the process.

Recommendations

We recommend that you

- insure that marketing and disposition plans for FF&E assets adequately document the inventory appraisal, shipping, and storage costs used to select the most cost effective disposition method;
- define nominal value in dollar terms for FF&E purposes;
- eliminate the requirement that nominal value FF&E assets must be marketed before they can be donated to nonprofit organizations or agencies provided RTC determines that donating these assets would be more cost effective than holding and selling them;
- permit low-value items that exceed the nominal value criteria but are in poor condition or outdated to be donated to nonprofit organizations or agencies provided RTC determines that donating these assets would be more cost effective than holding and selling them; and
- strengthen the internal controls over FF&E assets at each thrift by setting a target for completing their inventory and appraisals after a thrift comes under RTC control and holding managing agents accountable for meeting the target date.

Agency Comments

RTC officials reviewed a draft of this report and commented on the findings, conclusions, and recommendations. In their oral comments they generally agreed with the findings and conclusions, and they generally concurred with the recommendations. However, they felt that some managing agents did consider handling and disposal costs even though the directive was not clear on what costs should be considered, and therefore to say that these costs were not analyzed or considered would be incorrect. Since our review was not all-inclusive, we agree and have qualified the report where appropriate. They also offered some suggested changes to help clarify the presentation of other specific issues. These suggestions have also been incorporated in the body of the report where appropriate.

Following the meeting, RTC provided written comments on the draft focusing on its concerns about the wording of the recommendation to require handling and disposal costs to be considered. To address its concerns, we have revised the wording of the recommendation to more clearly emphasize the need for documentation. RTC's comments are in appendix I.

Since RTC was created as a mixed-ownership government corporation, it is not required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs, House Committee on Government Operations, and the House and Senate Committees on Appropriations. However, we would appreciate receiving such a statement within 60 days of the date of this letter to assist our follow-up actions and allow us to keep the appropriate congressional committees informed of RTC activities.

We will provide copies of this report to interested congressional committees and members, the Chairman of the Thrift Depositor Protection Oversight Board, and others upon request.

The major contributors to this report are listed in appendix II. If you or members of your staff have any questions, please contact me at (202) 736-0479.

Sincerely yours,

Gaston L. Gianni

Gaston L. Gianni, Jr.
Assistant Director,
Federal Management Issues

Comments From the Resolution Trust Corporation

RTC
Resolution Trust Corporation

JUL 7 1992

June 29, 1992

Mr. Gaston L. Gianni, Jr.
Associate Director, Federal Management Issues
United States General Accounting Office
1717 H Street N.W.
Washington, D.C. 20006

Dear Mr. Gianni:

The Resolution Trust Corporation (RTC) has reviewed the General Accounting Office's (GAO) briefing report, "Resolution Trust Corporation: Disposal of Furniture, Fixtures, and Equipment Could Be Done More Economically and Efficiently."

The RTC is in agreement with many of the observations and recommendations reported, including:

- define nominal value in dollar terms for FF&E purposes; and,
- strengthen the internal controls over FF&E assets at each thrift by setting a target period for completing their inventory and appraisal after a thrift comes under RTC control and holding managing agents accountable for meeting the target period.

However, the RTC considers the following recommendation to be misleading:

- require the cost of inventorying, appraising, shipping, and storing of FF&E assets to be considered when marketing and disposition plans are developed for these assets.

This statement is misleading because managing agents are already directed to consider handling and disposal costs of FF&E even though the directive does not explicitly itemize the costs to be considered. The RTC Directive and Asset Management and Disposition Manual state that an expeditious disposition which maximizes the return to the RTC is the ultimate and foremost goal with respect to FF&E disposition. Furthermore, the policy states that the method of sale used should be based upon the type of asset, as well as the time and cost constraints that affect the asset (i.e., the cost of inventorying, appraising, shipping, and storing.) Accordingly, one cannot substantiate a disposition program (in a case or asset management and disposition plan) without having performed the present value cash flow analysis.

801 17th Street, NW ■ Washington, DC 20434-0001

Mr. Gaston L. Gianni, Jr.
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RTC policies and procedures require proper documentation for all credit decisions. We will reinforce the need for such documentation with our managers to insure that cases always include the needed information.

Thank you for the opportunity to comment.

Sincerely,

Lamar Kelly

Lamar C. Kelly, Jr.
Senior Vice President for
Asset Management and Sales

cc: James Collins
James Wigand

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