

GAO

Testimony

Before the  
Committee on Governmental Affairs  
United States Senate

For Release  
on Delivery  
Expected at 9:30 a.m. EST  
Tuesday  
March 3, 1992

RESOLUTION TRUST  
CORPORATION

Preliminary Results of  
Western Storm Investigation  
and Related Contracting  
Deficiencies

Statement of Richard C. Stiener, Director, Office of Special  
Investigations

Statement of J. William Gadsby, Director, Federal  
Management Issues, General Government Division



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Statement of  
Richard C. Stiener,  
Director,  
Office of Special Investigations



Resolution Trust Corporation:  
Project Western Storm

Summary of Statements by  
Richard C. Stiener,  
Director, Office of Special Investigations  
J. William Gadsby  
Director, Federal Management Issues  
General Government Division

The Resolution Trust Corporation (RTC) needs a good, sound contracting process because of its legislative mandate to work through the private sector. Nevertheless, at the outset, RTC developed a loosely defined system to acquire needed services. Last year, in testimony before the House Banking Committee, GAO said that RTC seemed to have a mindset that essentially undervalued contracting.

RTC's mindset on contracting contributed to an environment which permitted Western Storm to occur. Lack of early planning and inappropriate contracting techniques hampered RTC's ability to monitor contractor performance and control costs for project Western Storm. The following points illustrate that the project had many serious problems and did not adequately protect the government's interests.

- RTC will have paid about \$24 million under a contract improperly issued on a sole-source basis.
- A contractor representative was involved in three days of pre-award discussions with RTC officials, concerning the upcoming project's scope and duration.
- Senior officials in RTC headquarters were aware of the contracting procedure used but did not request advice on the appropriateness of the procurement procedure, or require appropriate written justification and approval.

RTC has made some progress in correcting its contracting system deficiencies, but little progress on implementing effective contractor oversight. Compounding its contractor oversight problems is the fact that RTC's Contracting Activity Reporting System (CARS), does not provide the performance information needed to adequately manage the overall contracting area.

For example, when RTC top management requested information from CARS to prepare for a discussion with Western Region officials, CARS listed 49 task orders with estimated fees of \$271,943 for the contractor. In reality, there were over 90 with estimated fees of over \$20 million.

Mr. Chairman and Members of the Committee:

We are pleased to be here at your request to discuss the preliminary findings of our ongoing investigation into contracting practices at the Resolution Trust Corporation's (RTC) Western Regional Office in Denver, Colorado. Our investigation, which began October 28, 1991, is focused on the Western Regional Office's Asset Stratification and Reconciliation Project, commonly referred to as "Western Storm."

The principal purpose of the Western Storm project--which began April 2, 1991--was to reconcile assets of 92 failed thrift institutions to the financial management records in RTC's Western Region. RTC used an existing contract with Financial Management Task Force, Inc. (FMTF) for this work. FMTF's primary subcontractor for this contract was Yale & Seffinger, P.C., a Denver certified public accounting firm. As of October 1991, \$23.1 million had been spent on Western Storm, making it one of the largest individual contracts in RTC history. Thus far, we have conducted 40 interviews of past and present RTC officials, RTC Inspector General (IG) officials, and current and former contractor personnel. We have also examined RTC documents but have received limited access to contractor documents.

Before I discuss the events pertinent to Western Storm, I want to note two charts that show the principal individuals and firms involved. Chart I shows the key positions in the RTC hierarchy and their relationships to each other regarding Western Storm. Chart II illustrates how the funds were distributed, on the basis of currently available information. Following my statement, Mr. William Gadsby, Director of GAO's Federal Management Issue Area, will discuss RTC's contracting deficiencies related to the Western Storm Project.<sup>1</sup>

#### EVENTS LEADING TO WESTERN STORM

Western Storm had its origins in the spring of 1990 when RTC's Western Region decided that it needed contractor accounting assistance in closing failed thrift institutions. The Western Region used a contracting mechanism, called a Basic Ordering Agreement (BOA), to contract for services to assist in closing the failed institutions. The region established its "Closings BOA" and, in May 1990, selected five firms on a competitive-bid basis to assist in this work. Of the five firms, four were nationally recognized accounting firms; the fifth was FMTF, a small Denver consulting firm.

Each of the five firms provided services to the Western Region through 1990 by means of task orders that the region issued under

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<sup>1</sup>Resolution Trust Corporation: Contracting Deficiencies Related to Project "Western Storm" (GAO/T-GGD-92-16, Mar. 3, 1992).

the Closings BOA. The task orders to contractors defined the scope of work.

David Pyland, the Western Region's Senior Contracting Specialist, who later became Acting Director of Regional Financial Operations in the Western Region, determined that the Western Region's Central Processing Center (CPC) was experiencing problems in processing transactions. In November 1990, Mr. Pyland selected FMTF from the list of firms on the Closings BOA to assist with CPC activities. He selected FMTF because he believed that it was prepared to provide better qualified staff than could the other firms on the Closings BOA.

In December 1990, Mr. Pyland requested RTC headquarters to approve a competitive contract to operate the CPC. After obtaining headquarters approval, the RTC Western Region engaged in a competitive contracting process to select a contractor. On March 1, 1991, RTC awarded a contract to a joint venture of FMTF and Yale & Seffinger. That contract had an estimated cost of \$3.7 million to assist RTC in operating the CPC for 1 year. Our review of documents leading to the award of the contract showed that a major factor in the selection of FMTF was its prior experience at the CPC. This contract was amended in August 1991 to increase the estimated cost to \$6 million because the scope of the work had been expanded.

RTC officials had been aware since at least the fall of 1990 that the Western Region accounting records did not balance with those of the closed thrifts. They believed that the records contained about \$6.8 billion in erroneous transactions and almost \$1.1 billion in unprocessed transactions in suspense accounts. In January 1991, Lamar Kelly, RTC's Deputy Executive Director for Asset Operations, ordered the Western Region to reconcile the accounting records and eliminate the large suspense account of unprocessed transactions. Chart III shows key events during which Western Region and contractor personnel met to discuss the reconciliation project that became Western Storm.

Friday, March 15, 1991

On Friday, March 15, 1991, representatives of the Western Region and a contractor met to discuss a major project to reconcile the asset records of 92 failed thrifts with the region's accounting records. The participants included David Pyland and Russell Brown, a Western Region employee who became Western Storm's Project Manager. Ronald Lubbers, a certified public accountant and partner with Yale & Seffinger, P.C. and others were also present. The meeting participants believed that the project would require from 50 to 200 people and would take about 6 weeks to complete. Also on

March 15, 1991, Mr. Koopmans, the Western Regional Director,<sup>2</sup> sent a memorandum to Lamar Kelly at RTC headquarters, requesting approval to engage contractors on a "direct award basis."

Saturday and Sunday, March 16-17, 1991

On Saturday, March 16, and Sunday, March 17, 1991, Mr. Pyland, Mr. Brown, Mr. Lubbers, and other Western Region officials met to discuss at length the proposed project. Concerns were raised at this time about how such a large effort could be staffed and managed. On March 16, they estimated that 500 staff would be needed. By March 17, they estimated that the project would probably require 800 contractor staff, consisting of accountants, bankers, and computer specialists. They also estimated that the contract would cost about \$20 million. The goals were to get the project underway immediately and complete work by June 30, 1991. The proposed mechanism was to award a sole source contract to FMTF. We were told by an RTC employee, who had been involved in attempts to reconcile the asset records of a few institutions to the region's accounting records, that these goals were unrealistic.

Monday, March 18, 1991

On Monday, March 18, Mr. Lubbers of Yale & Seffinger wrote a memorandum to a consortium of accounting firms, stating that "two days" previously his joint venture partner, FMTF, had been awarded a contract to perform services for RTC's Western Region. Lubbers' memorandum requested "significant help" in the form of staff from the consortium firms in both accounting and computer specialties. It also stated that certain accountants and computer specialists should be prepared to attend a training session in Denver within a few weeks.

Shortly after March 18, 1991, according to Mr. Kelly, he informed Mr. Koopmans that he would not approve the proposal put forth in the March 15 memorandum because he believed it to be a sole source procurement. As a result, Mr. Pyland recommended that Mr. Koopmans split the contract into 92 separate task orders under the Closings BOA, one for each of the 92 closed thrifts. According to Mr. Pyland, this split was within the Western Region's delegation of procurement authority. Mr. Koopmans approved this procurement method. On April 2, 1991, Mr. Pyland signed the 92 task orders; and the Western Storm Project was underway.

WESTERN STORM: IMPLEMENTATION OF THE PROJECT

On the same day that the task orders were signed--April 2, 1991--the project started with a one-week training session in Denver for about 400 contract personnel, including key accountants,

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<sup>2</sup>Effective February 1, 1992, the Regional Directors' titles were changed to Regional Vice Presidents.

computer staff, and banking staff. Most of the personnel had no previous experience in working with RTC and no knowledge about RTC accounting and computer systems. The training included work needed to achieve the following major goals of the project:

- reconciliation of the thrifts' asset records to RTC accounting records,
- stratification of the thrifts' assets into 52 classifications,
- development of an asset reporting system, and
- testing of interest rates used for the thrifts' adjustable rate loans.

#### Staffing and Equipment Needs

Beginning on April 8, 1991, FMTF sent teams of accounting, banking, and computer personnel to each of the failed thrifts. The majority of the teams consisted of accounting personnel who were grouped into three levels: senior accountants, who were the team leaders; reconciliation accountants; and junior accountants. These teams, totaling approximately 800 personnel, were managed by 3 key RTC individuals.

On April 10, 1991, the Western Region Automation Specialist reported to Mr. Koopmans that computer equipment and associated software were "absolutely essential" to meet Western Storm goals and objectives. One of FMTF's subcontractors, who led a team of 40 people, explained to us that his team was on-site 6 weeks before computers, printers, software, and microfilm equipment were delivered. He said a conservative estimate of his team's lost productivity was \$222,700. He added that when he arrived on-site the second week of April, he had to arrange for his own office space, get phone lines installed, and procure facsimile and copier equipment.

#### Some Contractor Personnel Paid for Long Hours

Our analysis of time and attendance records showed that some contractor personnel billed and were paid for long work hours. In some cases individuals charged over 300 hours a month, including 16 or more hours in a day. According to the RTC officials who approved time charges, RTC had no procedures to verify the validity of the charges.

We found that 29 individuals representing 7 subcontractors charged over 300 hours each in one month. We interviewed a number of these individuals, and they all said that they had actually worked those hours. We could not verify this because the time and attendance reports do not show what work was done during the hours.

The contractors have refused thus far to provide us access to the records necessary to assess the validity of the time charges.

#### About \$4 Million Spent on Travel/Per Diem

RTC was required under the Closings BOA to pay all travel and per diem expenses, provided they were allowable under RTC travel regulations. The Closings BOA contained no cap on travel and per diem expenses. Further, neither the BOA nor the implementing Task Orders for Project Western Storm offered contractors any incentive to minimize travel-related costs.

Through October 1991, the date of the latest available information, Western Storm contract expenses paid by RTC totaled about \$23,060,000. Of this amount, about \$3,789,000 represents travel and per diem expenses or about 16.4 percent of all contract costs. When all contractor travel costs have been submitted, the total paid could grow closer to \$4 million.

Thirty-six percent of all travel costs were attributed to employees from two subcontractors. Specifically, a New York City accounting firm sent employees to work primarily at a site in the Los Angeles, California area with resultant travel and related costs of over \$662,000. In another instance, employees from a South Bend, Indiana, accounting firm claimed travel costs of about \$690,000 for work sites in Colorado, Utah, and New Mexico.

Our investigation disclosed that weak internal controls existed for verifying contractor travel vouchers. Contract personnel incurring expenses were not required to sign their vouchers attesting to their accuracy--there was no signature block on the form. In contrast, RTC requires its employees to sign their vouchers. Also, we were told by the Western Storm project auditor that his audit of the vouchers found that, about 50 percent of the time, vouchers were filled out by someone other than the individual incurring the expense. Our investigation and analysis of travel issues is continuing.

#### APPROVAL BY WESTERN REGION OFFICIALS OF THE WESTERN STORM PROJECT

Although RTC staff wrote project justifications for almost all important decisions, we were told that they had prepared no justification for Western Storm. Mr. Pyland, as Senior Contract Specialist, concluded that the project was necessary and urgent and that, therefore, a contractor was needed immediately. Western Region officials, according to Mr. Pyland, were happy with FMTF's performance in the CPC and believed it had the necessary expertise for the project. Mr. Pyland decided that FMTF would be the best choice to manage Western Storm. Mr. Koopmans told us that he was fully responsible for the decision to proceed with the project and did not wish to "pass the buck" to RTC officials in headquarters.



## RTC HEADQUARTERS KNOWLEDGE AND APPROVAL OF WESTERN STORM

Mr. Kelly told us that he had directed Mr. Koopmans to reconcile the financial records of the Western Region as soon as possible. As I previously stated, Mr. Koopmans--in a March 15, 1991, memorandum--told Mr. Kelly that the region was ready to hire a contractor to reconcile the region's accounting records. He further told Mr. Kelly that the region would be unable to comply with the normal contracting process if the project was to start immediately. Mr. Kelly told our investigators that he construed the Koopmans memorandum to be a request to approve a sole-source contract. He disapproved the sole source request for the \$21 million project. He also did not present the request to the RTC Board of Directors,<sup>3</sup> who had to approve noncompetitive procurements for professional services for over \$50,000.

According to Mr. Kelly, he was later presented with the option of using the Closings BOA with separate task orders for the project. He advised Mr. Koopmans that he should complete the project as soon as possible, as long as Western Region management were sure that they were within RTC's contracting rules.

According to John Tierney, RTC's Director of Contracting, he first became aware of the project when he learned of a request from the Western Region to do a sole source procurement for equipment to support the project. He told us that his assessment of the project's procurement led him to the conclusion that this was clearly a case of "order splitting" to avoid higher-level approval. The Western Region contracting office, according to Mr. Tierney, was improperly excluded from the decision to award the contract to FMTF; and when the 92 task orders were presented to that office for approval, its representatives refused to sign them.

The Assistant General Counsel for Contracting, RTC headquarters, told us that she first became aware of Western Storm in early April 1991, when she had lunch with an attorney from the Western Region who was visiting Washington, D.C. According to the Assistant General Counsel, the attorney told her that the Western Region had awarded a sole source contract for \$20 million without the advice or approval of counsel. In late April, she discussed the matter with Mr. Tierney, RTC's Director of Contracting, and David Cooke, Executive Director of RTC.

Mr. Cooke told us that he received assurances from Western Region officials--during a May 2, 1991, conference call--that the procurement was within RTC policies. Although he felt uncomfortable with the project's being split into 92 task orders,

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<sup>3</sup>Effective February 1, 1992, the RTC President and Chief Executive Officer assumed the responsibilities previously vested with the Board of Directors.

he concluded he did not need to take this issue to the RTC Board for its approval. He allowed the project to continue.

#### RTC IG CONCERNS ABOUT CONTRACTOR PROFIT MARGIN

On February 24, 1992, the RTC IG issued an audit report on the Western Storm Project. In its report, the RTC IG found FMTF's gross profit margin to be excessive. According to the IG, FMTF will realize an estimated overall gross profit of 21.6 percent. Under the initial agreement, RTC paid FMTF \$58 for each hour worked by contractor personnel. FMTF, in turn, paid its 98 employees and subcontract personnel at hourly rates of \$14 to \$45. Our examination of the FMTF payroll records disclosed that 93 of the 98 individuals, or 95 percent, were paid at hourly rates of \$25 per hour or less.

On May 3, 1991, because of concerns over the hourly rate being paid FMTF by RTC, the RTC IG initially proposed that the \$58 hourly rate be reduced. The Western Region's legal counsel determined that the task orders had already been signed and it was, therefore, too late to reduce the rate. When it became apparent that the June 30 contract-closing date would be extended, the IG renewed his concern about the hourly rate. We were informed by the Western Region IG staff that they had scheduled a meeting with David Pyland to discuss their position. When they arrived at Mr. Pyland's office for the early May 1991 meeting, they found contractor officials in attendance at Mr. Pyland's request. These officials included Mr. Seffinger and Mr. Lubbers from Yale & Seffinger, as well as Robert Pulcifer and Darl Hobson from FMTF.

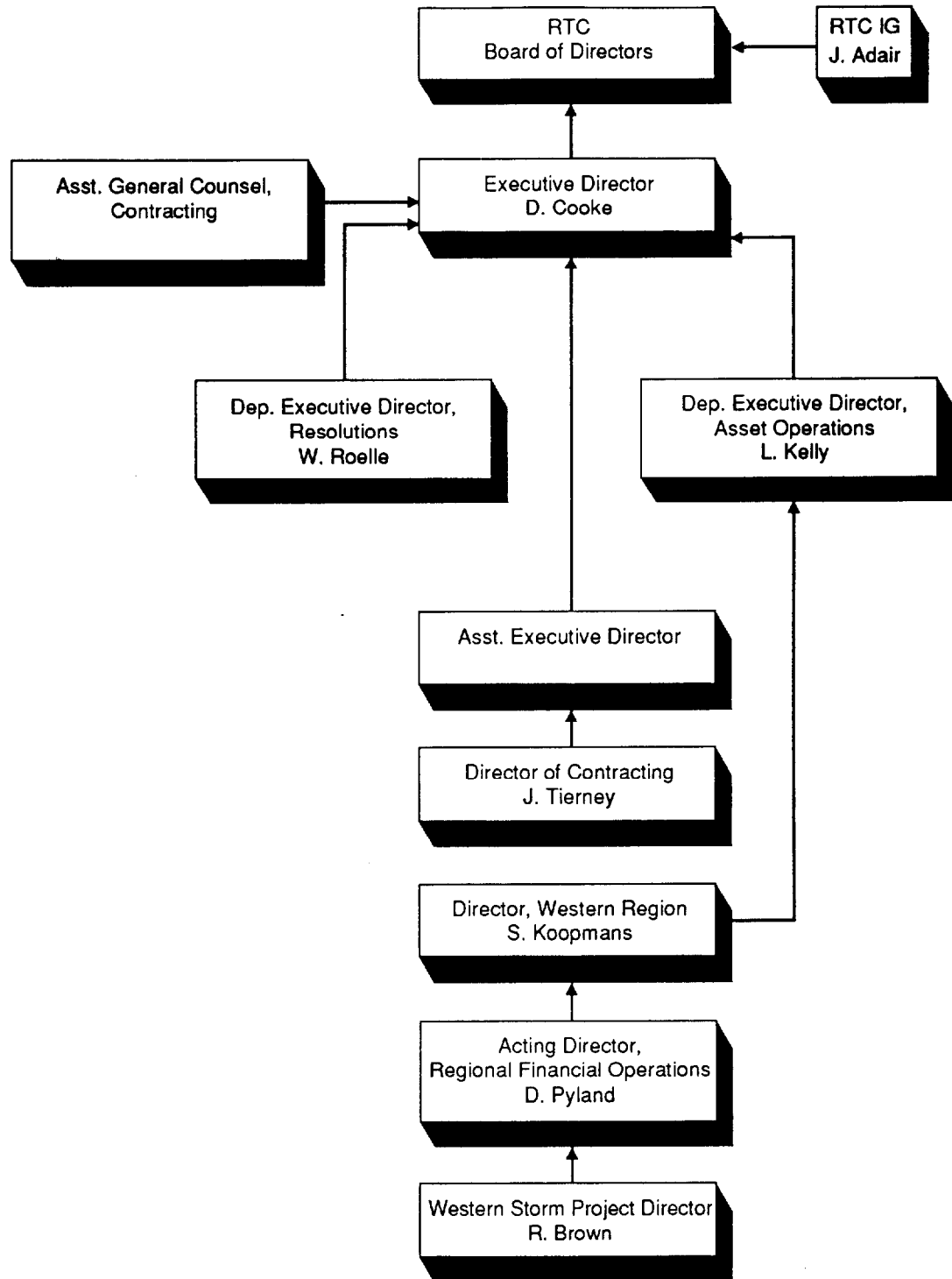
According to the Western Region IG staff, Mr. Pyland opened the meeting by telling the contractor officials that the IG staff believed that the Western Region was paying the contractors too much and had proposed to lower the \$58 hourly rate. He also said that he believed that the rate was reasonable. Mr. Pyland then told the IG staff to justify to the contractor officials why the rate should be lowered. The Western Region IG staff explained that the IG's analysis of selected April invoices revealed that FMTF had received a 28-percent gross profit. The contractors countered that this was not the case and said they would provide their own computation. Their later computation showed a gross profit of 27.7 percent. The hourly rate was subsequently lowered to \$52 an hour.

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This concludes my discussion, Mr. Chairman. We would be pleased to answer any questions.

# GAO Relationship of RTC and Key Western Storm Players

Chart 1:

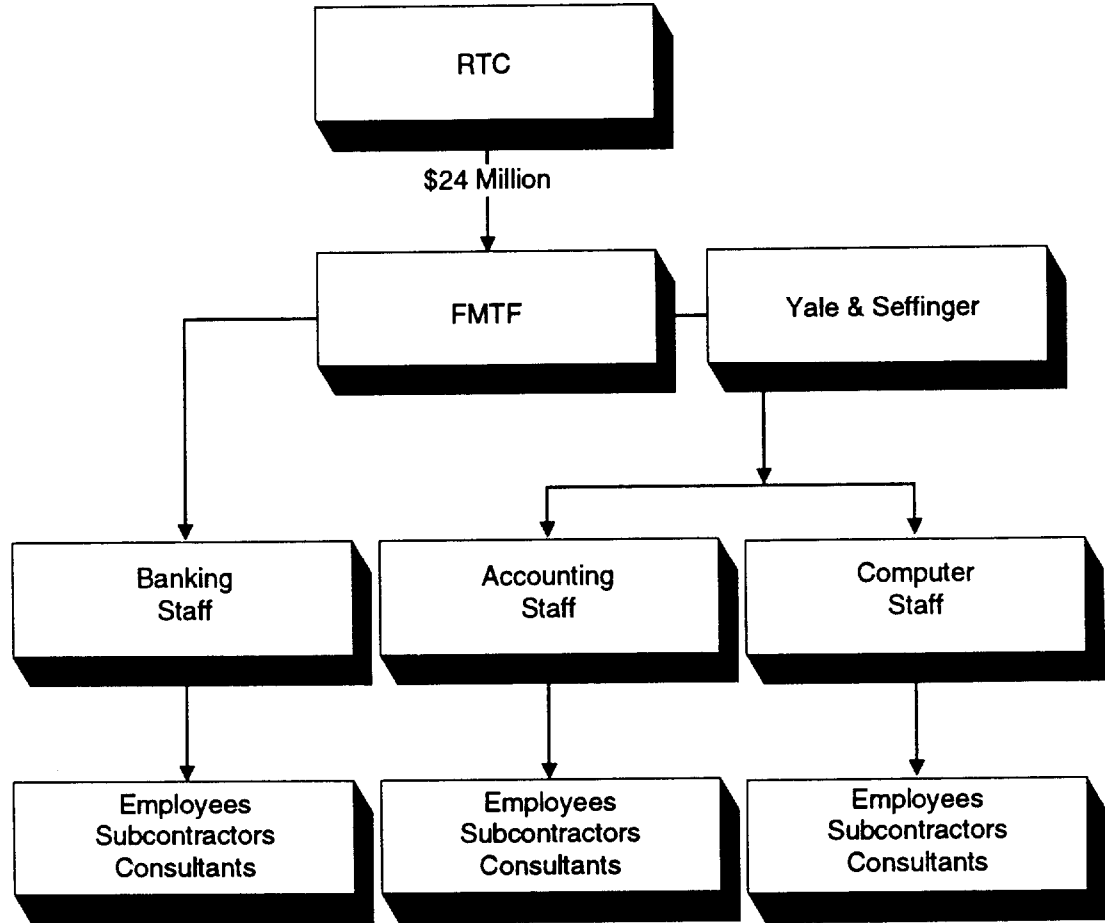


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# GAO Distribution of Western Storm Funds

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Chart 2:



# Key Events Leading To Western Storm Award

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**Chart 3:****Friday, March 15, 1991**

- Pyland, Brown, and Lubbers meet and decide that 50-200 staff are needed to complete project in 6 weeks.
- Koopmans' memo to Kelly requests use of contractor on "direct award basis."

**Saturday, March 16, 1991**

- Pyland, Brown, and Lubbers meet and conclude that 500 staff are needed.

**Sunday, March 17, 1991**

- Pyland, Brown, and Lubbers meet and conclude that 800 staff are needed - \$20 million cost and June 30, 1991, completion.

**Monday, March 18, 1991**

- Lubbers contacts Y&S affiliates, advising that FMTF was awarded a contract.

**Tuesday, April 2, 1991**

- Pyland splits project into 92 task orders.
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**RESOLUTION TRUST  
CORPORATION**

**Contracting Deficiencies  
Related to Project Western  
Storm**

Statement of J. William Gadsby, Director, Federal Management  
Issues, General Government Division



Mr. Chairman and Members of the Committee:

I would like to provide a context for the chronology of events just provided by Mr. Richard Stiener, Director of our Office of Special Investigations<sup>1</sup> by (1) highlighting how RTC's contracting program came into existence, (2) summarizing the specific deficiencies surrounding the Western Storm contracting process, and (3) reviewing some of the steps RTC has taken to improve contracting during the past year.

EARLY ATTITUDE UNDERVALUED  
SIGNIFICANCE OF CONTRACTING

Contracting is an important management process to RTC because of its legislative mandate to work through the private sector. RTC estimates it will spend between \$15 billion and \$20 billion for contract services over the next several years. Various statutes and regulations govern procurement by federal agencies. RTC is exempt from those but still needs a good, sound contracting process.

At the outset, RTC developed a loosely defined system to acquire needed services. Essentially, it adopted Federal Deposit Insurance Corporation contracting procedures as an interim measure, even though those procedures were not designed to handle the volume or the broad spectrum of professional services RTC would have to acquire.

At this juncture, however, RTC went down the wrong path. It decided to go forward with the design of its own system using its own staff. Unfortunately, the staff were, for the most part, program managers with little or no knowledge or expertise in the design and implementation of large contracting systems. Initially, RTC chose not to seek the advice of a wide range of experts in the field of procurement, the private sector, or from other federal entities, such as the U.S. Postal Service, which have designed and implemented their own procurement systems.

In our February 1990 testimony before the House Banking Committee<sup>2</sup> we summed up our views on RTC contracting by stating that RTC seemed to have a mindset that essentially undervalued contracting even though the law mandated that much of RTC's business be done through contractors. This could be seen early on in (1) the original placement of contracting within the Asset Management and Disposition Division, although it was to service

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<sup>1</sup>Preliminary results of OSI Investigation of the Western Storm Project (GAO/OSI-92-5 March 3, 1992).

<sup>2</sup>Resolution Trust Corporation: Performance Assessment to Date (GAO/T-GGD-91-7 Feb. 20, 1991)

the whole agency, and (2) the early views of top management that contracting was an administrative activity rather than a major agency function. Work completed at that time showed the following:

- Unclear contract guidance was being given. Directives were sent unsigned and unnumbered, making it difficult for field staff to determine whether the document was agency policy. And, there was no comprehensive index of contracting policies and procedures.
- Contracts were poorly designed. They lacked clear requirements and often did not have provisions setting forth remedies for incomplete work.
- RTC had no standards for evaluating whether a contractor's proposal was within accepted norms regarding the types of services to be provided and the number of people to be used. Without those standards, RTC was vulnerable to certain risks because it was using inexperienced contractors who did not understand the full scope of effort required.
- RTC did not have a comprehensive system to monitor the performance of its contractors. We provided an example in which RTC had hired a contractor to review the quality of loan files being prepared for sale. The contractor was paid about \$286,000, even though its work was substantially incorrect. After the large investment firm that had purchased the loans reviewed the files, it exercised its right to require RTC to buy back \$2.3 million of them.

POOR PLANNING AND INAPPROPRIATE CONTRACTING  
CREATED AN UNMANAGEABLE PROJECT

RTC's overall mindset on contracting contributed to an environment that permitted Western Storm to occur. Lack of early planning and inappropriate contracting techniques hampered RTC's ability to monitor contractor performance and control costs for project Western Storm. Overall, the project did not adequately protect the government's interests.

Poor Project Planning

Western Region staff did not perform any pilot studies to help define the project, and did not develop a written plan or an adequate methodology for carrying out the project. If contracting procedures had been followed, RTC would have been able to better define specific contract requirements. According to RTC and contracting officials, excessive costs incurred early in the project could have been avoided if the project had been planned better.



As part of project planning, RTC should have considered options for completing the work. Many were possible. For example, RTC could have started by performing work on only a portion of the thrifts. This would have made the project's scope more reasonable and controllable. Instead, RTC started the project by initially committing at least 400 contractor staff to examine the records of over 90 institutions at 70 worksites simultaneously.

Another important element of project planning, namely staff training, was largely bypassed. Most contractor personnel had no previous experience working with RTC and had no knowledge of the RTC accounting and computer systems. Accordingly, they needed training, and RTC provided only a minimal amount. Also, to assist the contractor field staff, RTC set up a help desk in Denver, with several RTC and contractor staff to answer questions for subcontractors. However, staff were not able to respond promptly and were inadequately trained to answer technical questions.

#### Improper Contracting Techniques Used

RTC Western Region staff improperly issued the contract on a sole-source basis to the Financial Management Task Force (FMTF). None of the written justifications or approvals required by RTC contracting procedures for a sole-source award were obtained before issuing the task orders to FMTF. Furthermore, the Basic Ordering Agreement under which the orders were issued was not an appropriate contracting vehicle and did not excuse RTC from obtaining competition for the project.

Also, a fundamental project management control requires approval of certain expenditures at higher organizational levels. For Western Storm, that fundamental internal control was bypassed. Under RTC directives, the maximum dollar amount that can be spent by a regional official without higher level approval is \$500,000, and the dollar limit is substantially lower for noncompetitive procurements. Contract expenditures exceeding these limits have to be approved by progressively higher levels at RTC headquarters, depending on the dollar amount involved. A project the size of Western Storm could only have been approved by RTC's Board of Directors. The Western Region circumvented this approval requirement; it broke the project into separately priced task orders and approved the orders on its own.

RTC used inappropriate contracting techniques partly because it failed to use the expertise of RTC's legal and contracting staffs. Bypassing them also led to an inadequate contracting document that did not contain commonly used provisions that:

- clearly defined work to be performed,
- set time frames for performance,
- defined contractor qualifications and duties, and

-- set a ceiling on authorized hours and travel costs.

Essentially, this led to a lack of cost control for the project.

#### Weak Project Management and Oversight

When planning the project, RTC did not prepare a budget for each institution. Accordingly, RTC was unable to question the total hours charged to the project. An RTC official said that they could not estimate the project's costs because they did not know the extent of the work that was needed to reconcile the institutions' records. While this may be true, they could have established some limit on total hours per institution which RTC had to review before it could be exceeded. We believe, the project had high travel costs because the original task orders did not place a limit on them, either. As discussed in the chronology, as of October 1991, about \$3.8 million in travel costs had been paid.

The large project scope created several contract administration problems. As discussed in the chronology, RTC used only 3 employees to manage and oversee a total of about 800 contractor staff located throughout the Western Region. Accordingly, much of the project's supervision was actually done by contractor staff. Without budgets and cost limits, there was no incentive for the contractor staff to control the hours charged, and costs grew from about \$20 million to about \$24 million. As an alternative, the Western Region could have had its consolidated offices hire contractors and oversee work at institutions located within their jurisdiction.

Lastly, this project had no headquarters oversight. Senior RTC managers told us that their primary role was to set policy and limited effort was devoted to monitoring contracting operations. As discussed in the chronology, when concerns regarding the Western Storm project were brought to the attention of headquarters officials, they were handled with a phone call to Western Region management. No follow-up monitoring or reporting was scheduled.

#### SOME IMPROVEMENTS MADE TO CONTRACTING SYSTEM, BUT CONTRACT OVERSIGHT REMAINS WEAK

RTC has made some progress correcting deficiencies in its contracting system but little progress on implementing effective contractor oversight and contract administration. During the last year, RTC took the following actions:

-- It issued a contracting manual in July 1991 to provide more uniform guidance on contracting policies and procedures, and it developed training programs. But, the actual training of contracting staff still needs to be completed.

- RTC restructured headquarters staff to group all contracting-related functions under a manager who reported to a Senior Vice President. This should improve the contracting staff's independence by separating it from RTC's program operations. But, changes are still in progress at RTC regional and consolidated offices. These changes need to be completed to ensure contracting functions are properly separated from program functions at that level.
- RTC also developed standard solicitation documents to ensure that all asset management contractors were given uniform information on pending contracts. But, RTC still needs uniform procedures for evaluating the financial and technical capability of potential contractors.

Notwithstanding the progress made in improving certain aspects of the contracting system, contract oversight remains weak. Since inception, RTC has paid little attention to overseeing contracts even though it has over 23,000 active contracts with over a billion in fees as of December 1991. Figure 1 shows the tremendous growth in the number of contracts during the last 2 years. As of January 1992, RTC had completed only 12 of 116 of the audits of large asset managers. One completed audit found that several key internal controls and cash management controls were not functioning properly, and the contractor could not adequately account for significant amounts of money.

Our work to date in other areas shows that inadequate contract oversight permeates a variety of RTC activities. For example, oversight of contractors handling the servicing of \$8 billion in mortgages and loans inherited from failed thrifts has been weak. RTC does not audit the loan collection records or verify the accuracy of the loan status reports. Also, we have indications that RTC asset management contractors are not verifying that subcontractors have fully performed services before they are paid or that collections have been remitted. Currently, RTC has \$37 billion of assets under management in 184 asset management contracts.

Compounding its contractor oversight problems is the fact that RTC's Contracting Activity Reporting System (CARS) does not provide the performance information needed to adequately manage the overall contracting area. Essentially, CARS is limited to providing an inventory of contract solicitations and issued contracts. It does not provide information showing whether contractors have been providing the required services on schedule and within budget. Perhaps the best example of these information shortcomings is project Western Storm itself. To prepare for a discussion with Western Region officials, RTC top management requested information on task orders issued to FMTF by the Denver regional office. The information in CARS listed only 49 task orders, with estimated fees of \$271,943, when in reality there

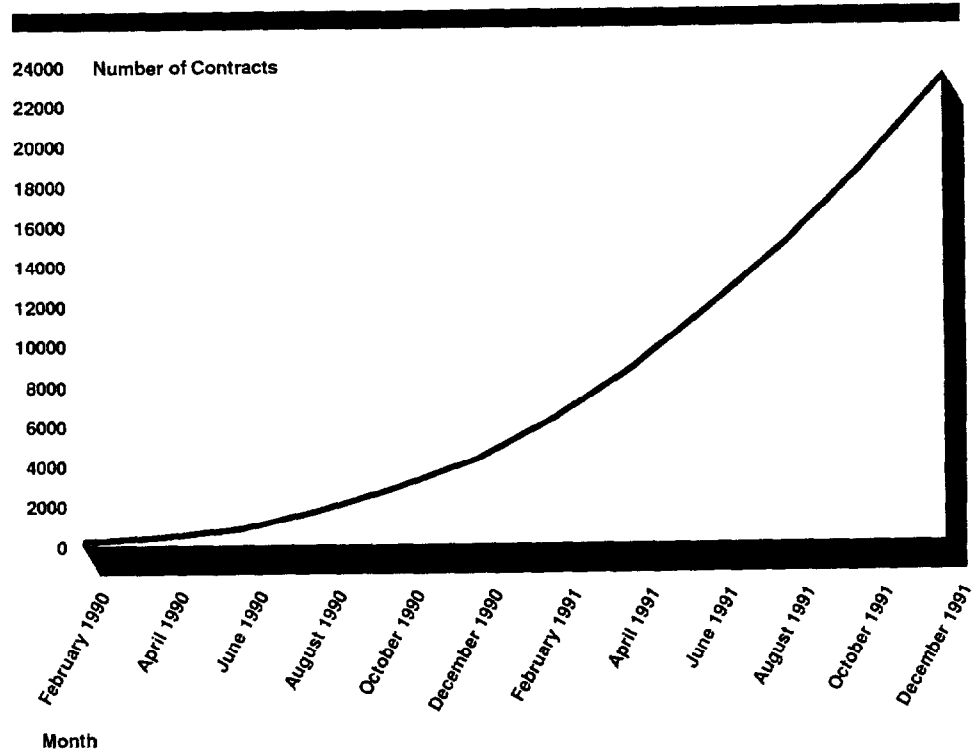
were over 90 task orders, with estimated fees of over \$20 million.

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With the large and growing number and dollar value of active contracts, RTC needs to take strong steps to ensure that its contracting employees are complying with established policies and procedures and that contractors are providing the best possible services. RTC will need to continue to improve its contracting oversight capability, including its information systems, in order to adequately monitor contracting activities.

Mr. Chairman, this concludes my prepared remarks. We would be pleased to answer any questions you may have.

# GAO Total Active RTC Contracts (1/90 - 12/91)



RELATED GAO PRODUCTS

Resolution Trust Corporation: Further Actions Needed to Implement Contracting Management Initiatives (GAO/GGD-92-47, March 5, 1992).

Resolution Trust Corporation: Performance Assessment for 1991 (GAO/T-GGD-92-14, Feb. 26, 1992).

Resolution Trust Corporation: A More Flexible Contracting-Out Policy Is Needed (GAO/GGD-91-136, Sept. 18, 1991).

Resolution Trust Corporation: Structure and Oversight Issues (GAO/T-GGD-91-55, July 15, 1991).

Resolution Trust Corporation: Update on Funding and Performance (GAO/T-GGD-91-47, June 17, 1991).

Resolution Trust Corporation: Update on Funding and Performance (GAO/T-GGD-91-43, June 11, 1991).

Resolution Trust Corporation: Performance Assessment to Date (GAO/T-GGD-91-07, Feb. 20, 1991).

Resolution Trust Corporation: Status of Selected Management Issues (GAO/T-GGD-91-04, Dec. 6, 1990).

RTC Asset Management: Contracting Controls Need to Be Strengthened (GAO/T-GGD-90-53, Sept. 24, 1990).