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RTC: Implementation of the Management Reforms in the RTC Completion Act

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Report to Congressional Committees

March 1995

RESOLUTION TRUST CORPORATION

Implementation of the Management Reforms in the RTC Completion Act

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Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate

The Honorable James A. Leach
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The Honorable Henry B. Gonzalez
Ranking Minority Member
Committee on Banking and Financial Services
House of Representatives

This is the second of two required reports on the Resolution Trust Corporation's (RTC) efforts to implement 21 management reforms mandated by the RTC Completion Act.[1] This report provides information on the manner in which RTC and the Thrift Depositor Protection Oversight Board (hereafter called the Oversight Board) implemented the mandated reforms. It also describes the progress they made toward achieving full compliance during the year since the act became law in December 1993. Our interim report presented our preliminary findings as of June 1994.[2]

Results in Brief

The manner in which RTC and the Oversight Board proceeded to implement the 21 management reforms varied from reform to reform. Actions have been initiated to implement all the reforms. Monitoring is required for most reforms until RTC ceases its operations at the end of 1995.

Specifically, RTC has completed 3 of the 21 reforms. Actions on these reforms were initiated before the RTC Completion Act became law, and involved (1) designating the Department of Minority and Women's Programs as a division and appointing a Vice President to head the

[1]The Resolution Trust Corporation Completion Act, Pub. L. No. 103-204, 107 Stat. 2369 (1993), required GAO to submit to Congress two reports—an interim report 6 months after the enactment of the act and a final report 1 year after the act became law—on the manner in which the reforms required by the act were being implemented by RTC and the progress being made by RTC toward achieving full compliance with the requirements.

[2]Resolution Trust Corporation: Interim Report on the Management Reforms in the RTC Completion Act (GAO/GGD-94-114, June 30, 1994).

division who also serves on RTC's Executive Committee, (2) appointing an individual to the position of Chief Financial Officer (CFO), and (3) establishing and maintaining client responsiveness units in RTC's field offices.

Actions have been taken to implement another 16 reforms. For example, RTC has taken steps to (1) strengthen its contracting activities, (2) increase its efforts to implement audit recommendations and correct internal control weaknesses, and (3) unify the legal and investigative teams of its professional liability program. Furthermore, the Oversight Board has established an audit committee to monitor RTC's audit follow-up activities, internal controls, and financial operations. While the actions taken should enable RTC and the Oversight Board to fulfill the requirements of the 16 reforms, monitoring is needed to ensure full compliance.

Finally, for the remaining two reforms, which are designated work in progress, RTC has taken steps to implement them, but all of its planned actions have not been completed. Some of the actions in progress include (1) selectively enhancing the primary information systems that support RTC's financial operations and asset disposition activities and (2) developing draft guidelines to improve specific minority- and women-owned businesses (MWOB) and minority- and women-owned law firms (MWOLF) contracting procedures. RTC's planned actions on these two reforms are scheduled to be accomplished by the end of March 1995.

Background

For over 50 years, the savings and loan industry promoted home ownership through home mortgage lending and was the nation's primary lender in the housing finance market. During the 1980s, the industry ran into financial difficulties, and the number of insolvent savings and loan institutions, also known as thrifts, rose dramatically. Between 1980 and 1988, over 500 thrifts failed—more than three and a half times as many as in the previous 45 years combined.[3] Furthermore, hundreds more thrifts remained insolvent or appeared likely to become insolvent.

Faced with a crisis of national dimensions, 1989 legislation, among other things, created RTC as a temporary mixed-ownership government corporation to resolve thrifts that were insolvent or in imminent danger of becoming insolvent. Initially, RTC was given 7 1/2 years to resolve the failed thrifts and dispose of their assets, but subsequent legislation reduced the

[3]Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Report of the Committee on Banking, Housing, and Urban Affairs, U. S. Senate, Report 101-19 (Apr. 13, 1989).

time RTC will be in existence.[4] The Federal Deposit Insurance Corporation (FDIC) is to inherit from RTC resolution responsibility for any thrifts that fail after July 1, 1995.[5] RTC is scheduled to cease all of its operations on December 31, 1995, when any remaining RTC asset disposition workload and supporting operations are to be transferred to FDIC. As of February 1995, RTC estimated that assets with a book value of approximately $8 billion will be transferred to FDIC for disposition.

GAO identified RTC as 1 of 18 high-risk areas that were particularly vulnerable to fraud, waste, and mismanagement. This identification was made mainly because of the large dollar value of the assets under RTC's control, the heavy reliance to be placed on private sector contractors, and the need for strong management information systems and oversight capabilities.[6] Because RTC has taken actions that improved its operations, the level of risk is not as great as it once was. Thus, as discussed in our February 1995 High-Risk Series report,[7] we removed RTC's high-risk designation.

Also, in our High-Risk report, we stated that the transition of RTC operations and workload to FDIC by January 1996 is a continuing risk. The task of winding down a large and complex organization with thousands of personnel and billions of dollars in assets, while minimizing the adverse consequences, is a very difficult one. For a successful transition, RTC and FDIC will need to ensure that sufficient controls are in place over the assets that will be sold during the final year of RTC's existence, as well as over the assets that will be transferred to FDIC. It is also important that the transition planners give early attention to the quality of data that FDIC will receive from RTC so that RTC will have sufficient time to prepare for and respond to FDIC's information needs.

Throughout RTC's existence, its management and support systems have evolved in response to changing conditions and legislative mandates, as well as internal and external criticism of its operations. However, certain problems have continually hampered RTC's ability to effectively

[4]The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (P.L. 101-73, 103 Stat. 183), which established RTC, specified that RTC would terminate not later than December 31, 1996 and that FDIC would be its successor. The RTC Completion Act changed RTC's termination date to December 31, 1995.

[5]As specified by the RTC Completion Act, the Chairperson of the Oversight Board determined that RTC's resolution responsibilities for newly failed thrifts will end on July 1, 1995.

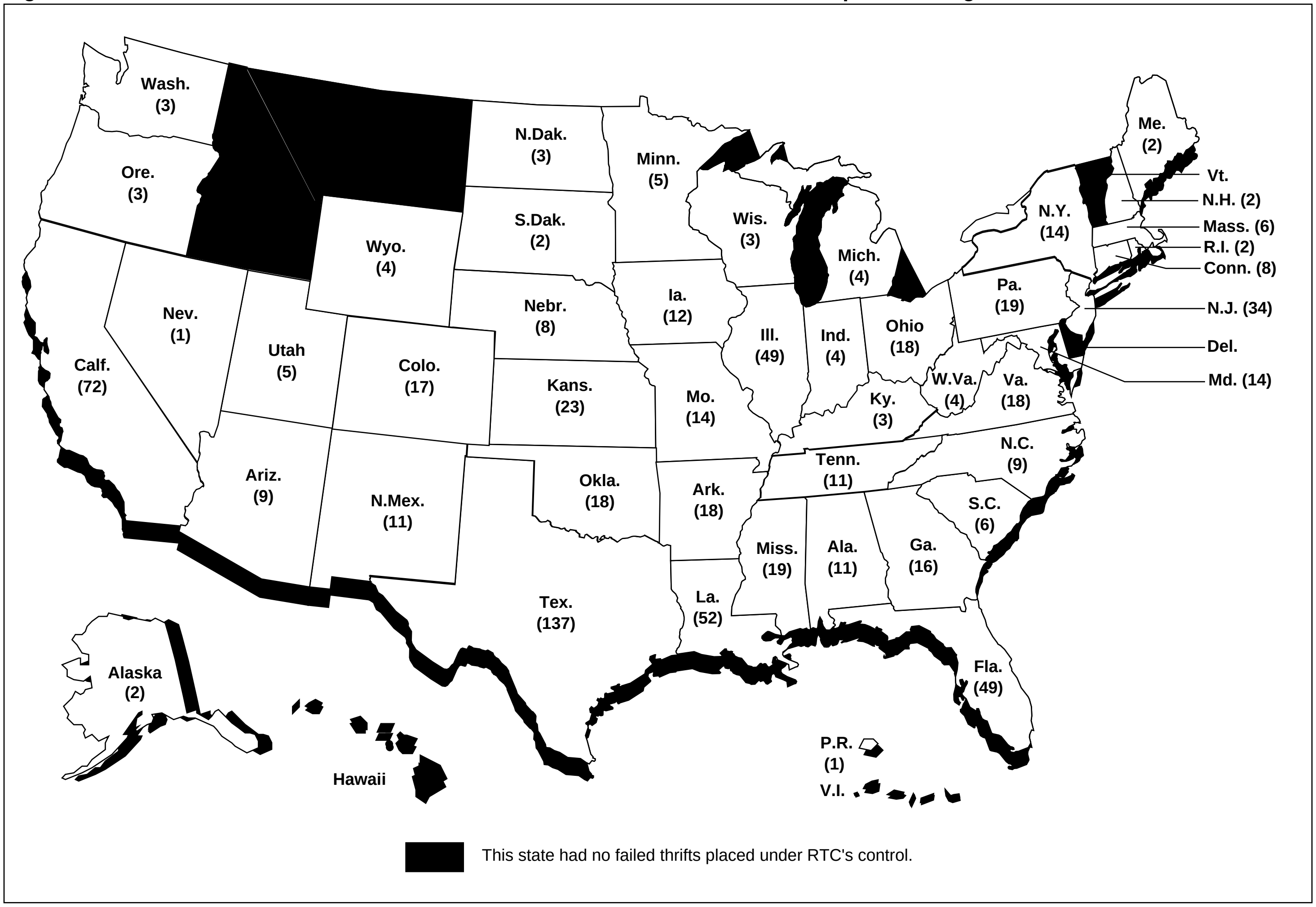
[6]Government Management: Status of Progress in Correcting Selected High-Risk Areas (GAO/T-AFMD-93-1, Feb. 3, 1993).

[7]High-Risk Series: Quick Reference Guide (GAO/HR-95-2, Feb. 1995).

accomplish its mission. These problems included weaknesses in its contracting system that contributed to excessive contract costs and in its automated systems that could not adequately support RTC's asset management and disposition activities. In December 1993, due to concerns about RTC's performance, Congress included in the RTC Completion Act a number of reforms to improve the management of RTC.

Despite such problems and the difficult economic environment in which RTC had to operate, it has accomplished a great deal in resolving a large number of failed thrifts and selling assets during its relatively short existence. From its inception in August 1989 through December 1994, RTC accepted responsibility for 745 failed thrifts. Figure 1 shows the locations of the thrifts that were placed under RTC's control.

Figure 1: Location of the 745 Failed Thrifts Placed Under RTC's Control From Inception Through December 1994

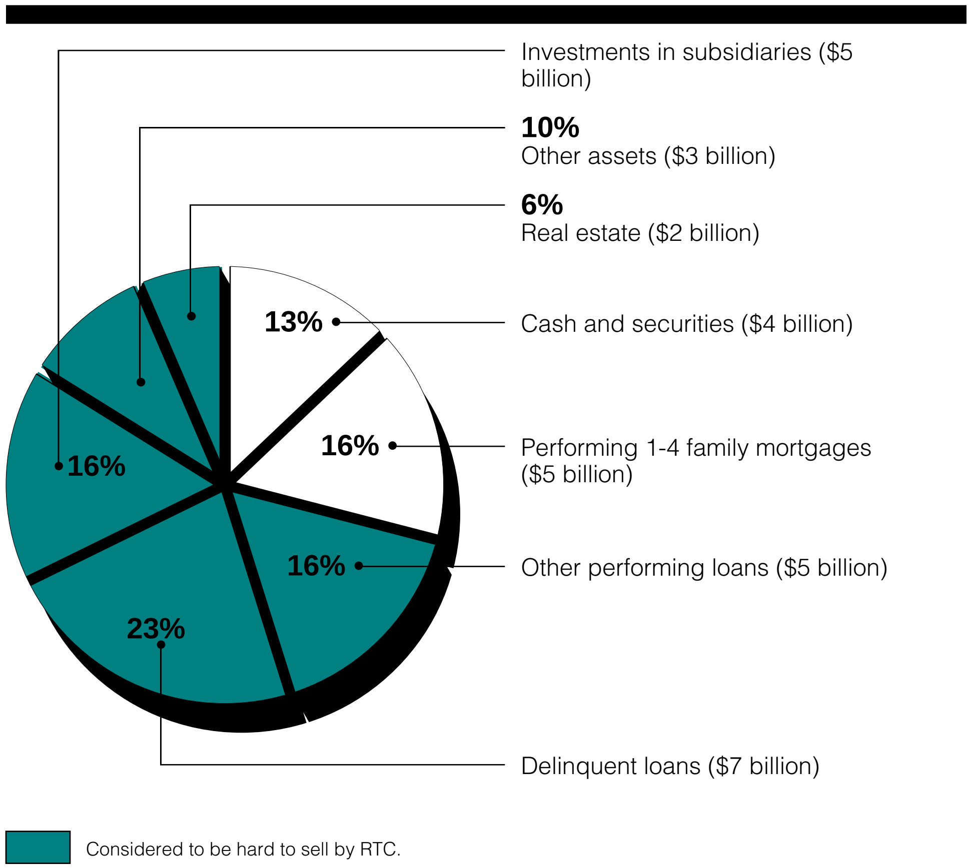


Source: RTC data.

By the end of December 1994, RTC had resolved 744 of these 745 thrifts. It is currently working to resolve one New Jersey thrift; it expects to accomplish this resolution by March 31, 1995.

RTC had under its control assets with a total book value of about $463 billion. As of November 30, 1994, RTC had disposed of about 93 percent of these assets ($432 billion) and had about $31 billion in assets remaining in its inventory. As shown in figure 2, RTC has classified most of these remaining assets as hard-to-sell.

Figure 2: Composition of Assets Remaining in RTC's Inventory, as of November 30, 1994



Source: RTC data.

In his March 1993 testimony before the Senate Committee on Banking, Housing, and Urban Affairs, the former Secretary of the Treasury Lloyd Bentsen, speaking in his capacity as Chairman of the Thrift Depositor Protection Oversight Board, outlined a 9-point plan to help RTC improve its management practices. Later, a tenth item—the establishment of an interagency transition task force made up of RTC and FDIC personnel—was added to the plan to address the transfer of RTC's personnel and systems to

FDIC when RTC ceases operations on December 31, 1995. Secretary Bentsen said that such a task force was needed to help ensure an orderly transition to FDIC without impairing RTC's operations.

The RTC Completion Act, which became law in December 1993, included 21 management reforms—those in Secretary Bentsen's 9-point plan along with 12 others.[8] The establishment of the RTC/FDIC transition task force was not included among the 21 reforms but was required by a separate section in the act.[9]

For reporting purposes, we organized the 21 reforms into 4 categories that reflected the organizational components that would be responsible for taking the implementation actions. These categories are (1) RTC general management functions; (2) RTC resolution and disposition activities; (3) RTC contracting, including related MWOB activities; and (4) the Oversight Board reform. Appendix I includes more detailed information on the reforms in these categories and shows the progress RTC and the Oversight Board have made in implementing the 21 management reforms since we issued our interim report in June 1994.

Objectives, Scope, and Methodology

Our objectives for this report, as set forth in the RTC Completion Act, were to determine (1) the manner in which the 21 management reforms were being implemented and (2) the progress being made toward achieving full compliance.

We accomplished these objectives through (1) interviews with responsible RTC headquarters and field officials and Oversight Board staff and (2) reviews of applicable statutes and RTC and Oversight Board documents, including status reports identifying actions taken to implement the reforms' requirements, specific policies and procedures designed to implement the reforms, and recent Office of Inspector General (IG) reports that addressed areas related to the management reforms. Also, we obtained supporting documentation to determine the extent to which actions were taken to correct internal control weaknesses and implement audit recommendations and other management reforms. In addition, we used our other ongoing work at RTC to verify that planned actions to implement the reforms had been completed or were in process. For

[8]Section 3(a) of the RTC Completion Act amended section 21A of the Federal Home Loan Bank Act by adding a new subsection (w), which contains the 21 mandated management reforms.

[9]The requirement to establish an RTC/FDIC transition task force is in section 6 of the RTC Completion Act. We are reviewing the transition efforts of RTC and FDIC in a separate assignment.

reporting purposes, we classified each of the 21 reforms into one of three status categories: (1) work in progress, (2) action taken/monitoring required, or (3) action completed.

From January 18 through January 31, 1995, we discussed a draft of this report with RTC and the Oversight Board. Specifically, we discussed the detailed information on each of the 20 RTC reforms with the RTC senior officials[10] responsible for implementing these reforms or their designated representatives. For the Oversight Board reform, we discussed detailed information with the individual on the Oversight Board staff who is responsible for monitoring the implementation of the reform. In addition, on February 7, 1995, we discussed the contents of the draft report with representatives from RTC's Office of the CFO and Office of Planning, Research and Statistics, who are responsible for tracking RTC's progress in implementing the reforms. These individuals agreed that the information in the report provided a fair and accurate summary of the manner in which RTC and the Oversight Board implemented the reforms and the progress they made to achieve full compliance. Also, these individuals agreed with our determinations of the implementation status for each of the 21 reforms. We included their comments where appropriate throughout the report.

We did our work from June 1994 through January 1995 in accordance with generally accepted government auditing standards. Appendix II provides more detailed information on our objectives, scope, and methodology.

Reforms Involving RTC General Management Functions

Table 1 shows the implementation status we determined for each of the 10 reforms in this category.

[10]These officials included the CFO and the General Counsel. Also included were the Vice Presidents of Asset Management and Sales; Resolutions; Administration; Contracts, Oversight, and Evaluation; and Minority and Women's Programs; and the Director of Information Resources Management.

Table 1: Implementation Status of Reforms in the General Management Functions Category

Reform number[a]	Management reform	Implementation status: Work in progress	Implementation status: Action taken/ monitoring required[b]	Implementation status: Action completed	See page:
1	Comprehensive business plan[c]		•		27
4	Division of minorities and women programs[c]			•	29
5	Appoint CFO[c]			•	29
9	Corrective responses to audit problems[c]		•		31
10	Assistant General Counsel for Professional Liability		•		39
11	Management information system[c]	•			41
12	Internal controls[c]		•		44
13	Fill certain vacant positions		•		46
14	Annual reporting		•		47
21	Client responsiveness units			•	47

[a]This is the reform number from the RTC Completion Act (see app. III).

[b]RTC has taken actions that should enable it to fulfill the requirements of the reform, but monitoring is required to ensure that appropriate future actions are taken when necessary.

[c]This reform was also included in Secretary Bentsen's March 1993 9-point plan.

Source: RTC Completion Act and GAO assessment of implementation status.

For two of the three completed reforms shown in table 1, RTC (1) in April 1993, created the Division of Minority and Women's Programs and appointed a Vice President to head this division who also serves on RTC's Executive Committee (reform 4); and (2) in June 1993, appointed a CFO who reports directly to RTC's Chief Executive Officer (CEO) (reform 5). These actions were completed before the act became law in December 1993. For reform 21, which is the third completed reform, by the time the act became law, RTC had already initiated a program that included establishing client responsiveness units in its field offices. In August 1994, RTC completed updating its client responsiveness policy to emphasize the importance of this function and distributed the policy to all RTC personnel.

As shown in table 1, the implementation status for six reforms is action taken/monitoring required. Highlights of some of the actions taken to implement these reforms are listed below.

- RTC updated its comprehensive business plan in August 1994, in part, to ensure that the requirements of the RTC Completion Act were included in the plan. (Reform 1).
- RTC established a management decision and audit follow-up process that encompasses all efforts to address findings, implement accepted recommendations, and verify completion of corrective actions. (Reform 9).
- RTC established and filled the position of Assistant General Counsel (AGC) for Professional Liability who is to manage the investigation, evaluation, and prosecution of all professional liability claims involving RTC and who has since submitted to Congress two semiannual reports that included information on various litigation activities. (Reform 10).
- RTC established a program to assess the adequacy of its internal controls and issued its annual assessment report on March 31, 1994, identifying internal control weaknesses that needed to be corrected. (Reform 12).
- RTC ensured that specific senior executive positions were filled. (Reform 13).
- RTC included in its 1993 annual report[11] information on the expenditure of loss funds and the salaries and other compensation paid to directors and senior executive officers of RTC-controlled thrifts. (Reform 14).

The nature of these reforms requires RTC to monitor them to ensure that appropriate future actions it must take are initiated when necessary. For example, to maintain the comprehensive business plan required under reform 1, RTC plans to continue to measure its performance against the goals in the plan and make adjustments in the goals as necessary to reflect changing conditions. Also, to maintain effective internal controls as required by reform 12, RTC plans to continue to assess the adequacy of its internal controls and take actions to correct any weaknesses it, its IG, or we identify.

For reform 11, which is in the work in progress category, RTC has implemented a corporate-wide data quality policy requiring program managers to develop data quality action plans. RTC has not yet finished its planned enhancements to the primary information systems that support its financial operations and asset disposition activities. RTC expects to complete this work by the end of March 1995. In addition, RTC is reassessing its efforts to improve the quality of data in its information systems to help ensure that these efforts are properly focused on the data most critical to completing its mission. RTC expects to complete this reassessment by the end of March 1995.

[11] 1993 Annual Report, Sept. 30, 1994.

Additional details on the manner in which RTC proceeded to implement these reforms, as well as their status, are included in appendix III.

Reforms Involving RTC Resolution and Disposition Activities

The three reforms in this category affect the manner in which RTC markets and attempts to dispose of failed thrifts and specific assets under its control. They are intended to ensure that individual acquirers, small investors, and MWOB firms are given sufficient opportunity to participate in RTC's thrift resolution and asset disposition activities. Table 2 shows the implementation status we determined for each of the three reforms in this category.

Table 2: Implementation Status of Reforms in the Resolution and Disposition Activities Category

		Implementation status			
Reform number[a]	Management reform	Work in progress	Action taken/ monitoring required	Action completed	See page
2	Marketing real property on an individual basis		•		51
3	Disposition of real estate related assets		•		52
17	Minority preference - thrifts in predominantly minority neighborhoods		•		53

[a]This is the reform number from the RTC Completion Act. (See app. IV.)

Source: RTC Completion Act and GAO assessment of implementation status.

As shown in table 2, the implementation status for all three reforms is action taken/monitoring required. For reform 2, RTC issued a memorandum to establish a 120-day period to market real property assets on an individual basis before they may be included in any multiasset sales initiative. The memorandum also required written justifications for including these assets in multiasset sales initiatives if they did not sell during the 120-day period. For reform 3, RTC issued a memorandum informing staff of the requirements to prepare written justifications for selling certain nonperforming real estate loans and other real property. In November 1994, RTC published in the Federal Register its final rule that adopted the policies and procedures for implementing the requirements of reforms 2 and 3. RTC monitors the implementation of these two reforms primarily through its internal control review and program compliance review processes.

For reform 17, in July 1994, RTC published in the Federal Register the final rule defining a predominantly minority neighborhood (PMN) as any U.S. postal ZIP code area in which 50 percent or more of the residents are minorities according to the most recent Census data. However, RTC has the discretion to use other data that may indicate more accurate neighborhood boundaries. This rule was the subject of extensive review and debate because its implementation could have a significant effect on the extent to which minority individuals or minority-owned institutions can acquire failed thrifts in PMNs. In addition, RTC established a program that provides minority acquirers of thrifts in PMNs with opportunities to purchase performing 1-4 family mortgage loans. As of February 1, 1995, RTC had sold a total of about $207 million in loans through this program. As required by the RTC Completion Act, we are reviewing RTC's valuation of loans offered through this program and will report on the results of our review later in 1995.

Additional details on the manner in which RTC proceeded to implement these reforms, as well as their status, are included in appendix IV.

Reforms Involving RTC Contracting and Related MWOB Activities

In this category, we included seven reforms that affect RTC's contracting activities, including several intended to improve RTC's contracting system, strengthen its contractor oversight, and ensure that MWOB firms receive sufficient opportunities to obtain RTC contracts. Table 3 shows the implementation status we determined for each of the seven reforms in this category.

Table 3: Implementation Status of Reforms in the Contracting and Related MWOB Activities Category

Reform number[a]	Management reform	Implementation status: Work in progress	Implementation status: Action taken/ monitoring required	Implementation status: Action completed	See page
6	Basic ordering agreements		•		55
7	Improve contracting systems and contractor oversight[b]		•		55
15	MWOB contract parity guidelines	•			58
16	Subcontracting and joint ventures contract sanctions		•		59
18	Subcontracts with MWOBs		•		59
19	Contracting procedures		•		60
20	Management of legal services		•		61

[a]This is the reform number from the RTC Completion Act. (See app. V.)

[b]This reform was also included in Secretary Bentsen's 9-point plan.

Source: RTC Completion Act and GAO assessment of implementation status.

As shown in table 3, the implementation status for six reforms is action taken/monitoring required. Highlights of some of the actions taken to implement these reforms are listed below.

- In May 1994, RTC issued a policy memorandum that included guidance on basic ordering agreements, which is designed to ensure a thorough review of source lists for prospective RTC contract solicitations. On February 8, 1995, RTC published in the Federal Register its final rule, which, among other things, defines procedures for ensuring that MWOBs and MWOLFs are not excluded from eligibility for task orders and other contracting activities. (Reform 6).

- RTC revised the Contracting Policies and Procedures Manual (CPPM) to provide uniform contracting procedures and strengthen contractor oversight. Also, RTC provided additional RTC staff for contracting related activities, issued additional procedures for the oversight of property management subcontractors, and implemented RTC-wide legal services contracting procedures. (Reform 7).
- RTC has developed specific sanctions, such as contract suspensions, for violations of MWOB/MWOLF subcontracting and joint venture requirements. On February 8, 1995, RTC published in the Federal Register its final rule, which included these sanctions. (Reform 16).
- On February 8, 1995, RTC published in the Federal Register its final rule establishing required MWOB and MWOLF subcontracting goals for contracts with fees of $500,000 or more. (Reform 18).
- RTC has revised the CPPM to incorporate the two requirements of this reform that relate to RTC's competitive bidding procedures and costs to the taxpayer. (Reform 19).
- RTC issued in August 1994 revised policies and procedures and implementing guidelines designed to ensure that RTC's Division of Legal Services hires outside counsel only when the requirements of this reform have been met. (Reform 20).

For reform 15, which is in the work in progress category, RTC has developed draft guidelines to achieve the goal of a reasonable distribution of contract awards and fees to each minority subgroup of contractors. At the time of our interim report, RTC had planned to issue these guidelines by the end of July 1994. According to an RTC official, the guidelines were not issued in July 1994 mainly because RTC's efforts were focused on developing the final rule that would implement reforms 6, 16, and 18. Since the final rule was published on February 8, 1995, RTC is preparing the parity guidelines which are scheduled to be issued by the end of March 1995.

Additional details on the manner in which RTC proceeded to implement these reforms, as well as their status, are included in appendix V.

Reform to Be Implemented by the Oversight Board

The establishment of an audit committee was included in Secretary Bentsen's 9-point plan. The implementation status of this reform, which the RTC Completion Act designated as reform 8, is action taken/monitoring required. By November 1994, three individuals had agreed to serve as members of the audit committee, and the Oversight Board had published a charter that described the duties and responsibilities of the committee.

Since the establishment of its charter, the audit committee has held two meetings, one in November 1994 and one in January 1995.

Additional details on the manner in which the Oversight Board proceeded to implement this reform, as well as its status, are included in appendix VI.

Conclusions

Since our interim report was issued in June 1994, RTC and the Oversight Board have continued to move forward in their actions to implement the 21 management reforms. RTC has completed three reforms, and has work in progress to implement two other reforms. Furthermore, actions have been taken to implement the remaining 16 reforms. While these actions will enable RTC and the Oversight Board to fulfill the reforms' requirements, monitoring will be needed to ensure full compliance.

While RTC has made dramatic progress in reducing its inventory of thrifts and assets, it still had about $31 billion in assets remaining as of November 1994. As of February 1995, RTC estimated that about $8 billion in assets will be transferred to FDIC when RTC ceases operations in December 1995. Further, RTC will be faced with significant challenges in the task of winding down a large and complex organization with thousands of personnel and billions of dollars in assets while attempting to minimize adverse consequences. These responsibilities will require substantial attention from both RTC's top management and the Oversight Board. In addition, continued attention to the implementation of the reforms should help ensure that the reforms' intended benefits are achieved to the fullest extent possible before RTC ceases its operations.

At this time, we are not making any recommendations for further legislative or administrative actions. However, we will continue to monitor RTC and Oversight Board activities during the final year of operation and the transfer of RTC activities to FDIC.

Comments on the Report

Generally, RTC officials with whom we discussed this report agreed that it provides a fair and accurate summary of the manner in which RTC was implementing the reforms and the progress it has achieved during the year since the act became law. In addition, RTC officials agreed with our assessment of the implementation status for the 20 RTC reforms. During our discussions, RTC officials provided us with information that updated and clarified their actions in implementing various reforms. We included this information in the report where appropriate.

The individuals with whom we discussed the reform implemented by the Oversight Board agreed that the information we included in our report about the audit committee provides an accurate summary of the Oversight Board's efforts to implement this reform. Also, the individuals agreed that the appropriate implementation status for this reform is action taken/monitoring required.

We are sending copies of this report to RTC's Deputy and Acting Chief Executive Officer, the Chairman of the Thrift Depositor Protection Oversight Board, the Chairman of the Federal Deposit Insurance Corporation, and other interested congressional committees and subcommittees. Copies will be made available to others upon request.

This report was prepared under the direction of Ronald L. King, Assistant Director, Government Business Operations Issues. Other major contributors to this report are listed in appendix VIII. If you have any questions, please contact me on (202) 736-0479.

Gaston L. Gianni

Gaston L. Gianni, Jr.,
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Business Operations Issues

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Appendix VII List of Open GAO Recommendations Made to RTC, as of January 23, 1995

Appendix VIII Major Contributors to This Report

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Abbreviations

AGC	Assistant General Counsel
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLD	Central Loan Database
CPPM	Contracting Policies and Procedures Manual
DIRM	Department of Information Resources Management
FDIC	Federal Deposit Insurance Corporation
IG	Inspector General
MWOB	minority- and women-owned business
MWOLF	minority- and women-owned law firm
OCOS	Office of Contractor Oversight and Surveillance
PMN	predominantly minority neighborhood
REOMS	Real Estate Owned Management System
RTC	Resolution Trust Corporation
SAMDA	Standard Asset Management and Disposition Agreement

Description of Four Categories of Management Reforms and Progress in Their Implementation

For reporting purposes, we organized the 21 reforms into 4 categories that reflected the organizational components that would be responsible for taking the implementation actions. These categories are: (1) RTC general management functions; (2) RTC resolution and disposition activities; (3) RTC contracting, including related MWOB activities; and (4) the Oversight Board reform.

General Management Functions

In the first category—general management functions—we included the 10 reforms that are the responsibility of RTC's corporate top management.[1] These reforms require RTC to

- develop and maintain a comprehensive business plan (reform 1);
- maintain a division of minority and women's programs (reform 4);
- appoint a CFO (reform 5);
- correct problems identified by auditors, including GAO and the RTC IG (reform 9);
- appoint an AGC for professional liability (reform 10);
- maintain an effective management information system (reform 11);
- maintain effective internal controls (reform 12);
- fill any vacancies that occur in specific senior executive positions (reform 13);
- itemize specific expenditures for the year, and disclose salaries and other compensation paid during the year to directors and senior executive officers at thrifts under RTC's control as part of RTC's annual report (reform 14); and
- ensure that every field office has a client responsiveness unit (reform 21).

Resolution and Disposition Activities

In the second category—resolution and disposition activities—we included the three reforms that are the responsibility of RTC's Vice Presidents of Asset Management and Sales, and Resolutions. These reforms require RTC to:

- revise marketing procedures for disposing of real property (reform 2),
- justify asset disposition methods used to sell certain real property and nonperforming real estate loans (reform 3), and
- give preference to minority acquirers of thrifts in PMNs (reform 17).

[1]These included the CEO; CFO; General Counsel; Vice President for Planning, Research, and Statistics; and Vice President for Administration.

Contracting and Related MWOB Activities

In the third category—contracting and related MWOB activities—we included the seven reforms that are the responsibility of RTC's Vice Presidents for Contracts, Oversight and Evaluation; Minority and Women's Programs; and Legal Services. These reforms require RTC to

- revise contracting procedures for basic ordering agreements to ensure that small businesses and MWOBs are not inadvertently excluded (reform 6);
- maintain procedures and uniform standards for contracting with private contractors and overseeing contractors' and subcontractors' performance (reform 7);
- establish guidelines for achieving the goal of a reasonably even distribution of contracts awarded and fees paid to various MWOB and MWOLF subgroups (reform 15);
- prescribe regulations specifying sanctions, including contract penalties and suspensions, for subcontracting and joint venture violations (reform 16);
- set procedures and goals for MWOB and MWOLF subcontracting (reform 18);
- ensure that, in awarding competitively bid contracts, procedures used are no less stringent than those in effect when the RTC Completion Act became law in December 1993 (reform 19); and
- improve the management of legal services (reform 20).

Oversight Board Reform

The fourth category contains a single reform that requires the Oversight Board to establish an audit committee to monitor and advise RTC on its efforts to improve internal controls and implement audit recommendations. The Oversight Board is responsible for implementing this reform. (Reform 8.)

As shown in table I.1, RTC and the Oversight Board have made progress in implementing the management reforms since our interim report was issued in June 1994.

Table I.1: Progress in Implementing the Management Reforms Since the Interim Report Was Issued in June 1994

		Implementation status					
		Interim report			Final report		
Reform number[a]	Management reform	Work in progress	Action taken/ monitoring required	Action completed	Work in progress	Action taken/ monitoring required	Action completed
1	Comprehensive business plan		•			•	
2	Marketing real property on an individual basis	•				•	
3	Disposition of real estate related assets	•				•	
4	Division of minorities and women programs			•			•
5	Appoint CFO			•			•
6	Basic ordering agreements	•				•	
7	Improve contracting systems and contractor oversight	•				•	
8	Audit committee	•				•	
9	Corrective responses to audit problems	•				•	
10	AGC for Professional Liability	•				•	
11	Management information systems	•			•		
12	Internal controls		•			•	
13	Fill certain vacant positions		•			•	
14	Annual reporting	•				•	
15	MWOB contract parity guidelines	•			•		
16	Subcontracting and joint ventures contract sanctions	•				•	
17	Minority preference - thrifts in PMNs	•				•	
18	Subcontracts with MWOBs	•				•	
19	Contracting procedures	•				•	
20	Management of legal services	•				•	
21	Client responsiveness units	•					•

[a]This is the reform number from the RTC Completion Act. (See apps. III through VI.)

Objectives, Scope, and Methodology

Our objectives, as set forth in the RTC Completion Act, were to determine (1) the manner in which RTC and the Oversight Board were implementing the 21 management reforms mandated by the act and (2) the progress being made by RTC and the Oversight Board toward achieving full compliance. The act required that we issue an interim report with our preliminary findings 6 months after the RTC Completion Act became law in December 1993, and a final report.

To accomplish these two objectives, we reviewed RTC's management reform status reports to identify actions taken to implement the reforms' requirements. After identifying the actions, we interviewed responsible RTC officials and Oversight Board staff to obtain information on the status and progress being made in implementing them. The officials we interviewed were in the following RTC headquarters divisions: Administration; Asset Management and Sales; Contracts, Oversight and Evaluation; Resolutions; CFO; Legal Services; and Minority and Women's Programs. We also interviewed RTC officials in the Department of Information Resources Management (DIRM); Office of Planning, Research and Statistics; and Office of IG. Also, we interviewed field office officials in Atlanta; Dallas; Denver; Kansas City; Newport Beach, CA; and Valley Forge, PA; to verify the status and progress of the actions being implemented at field locations.

We reviewed supporting documents for evidence that planned actions had been completed, as well as recently issued reports by RTC's IG covering the management reform areas. We also monitored the monthly Oversight Board meetings at which RTC reported its progress in implementing the reforms. To determine whether internal control corrective actions had been completed as reported, we randomly selected 50 of 191 completed actions and reviewed the supporting documentation. Further, we used our other ongoing work at RTC to verify that 27 additional actions had been completed.

On the basis of information obtained from RTC and the Oversight Board, each reform was classified into one of the following three status categories:

(1)work in progress (i.e., some planned actions have been implemented and others are under way);

(2)action taken/monitoring required (i.e., planned actions have been taken to fulfill the requirements of the reform, but monitoring is needed to ensure full compliance); and

(3)action completed (i.e., all planned actions have been implemented).

From January 18 through January 31, 1995, we discussed a draft of this report with RTC and the Oversight Board. Specifically, we discussed the detailed information on each of the 20 RTC reforms with the RTC senior officials responsible for implementing these reforms or their designated representatives. For the Oversight Board reform, we discussed detailed information with the individual on the Oversight Board staff who is responsible for monitoring the implementation of the reform. In addition, on February 7, 1995, we discussed the contents of the draft report with representatives from RTC's Office of the CFO and Office of Planning, Research and Statistics, who are responsible for tracking RTC's progress in implementing the reforms. These individuals agreed that the information in the draft report provided a fair and accurate summary of the manner in which RTC and the Oversight Board implemented the reforms and the progress they made to achieve full compliance. Also, these individuals agreed with our determinations of the implementation status for each of the 21 reforms. We included their comments where appropriate throughout the report.

Additional Details on Actions Taken by RTC to Implement Reforms Involving Its General Management Functions

Reform 1: Comprehensive Business Plan [Sec. 21A(w)(1)][1]

Requirements of the Reform: This reform requires that RTC establish and maintain a comprehensive business plan covering RTC's operations, including the disposition of assets, for the remainder of its existence.

Status

Action taken/monitoring required.

Description of RTC Actions

RTC developed a comprehensive business plan that set forth the major goals to be achieved during the remainder of its existence. The plan was submitted to Congress on December 15, 1993. It established the following six goals for RTC to strive for in completing the thrift clean up.

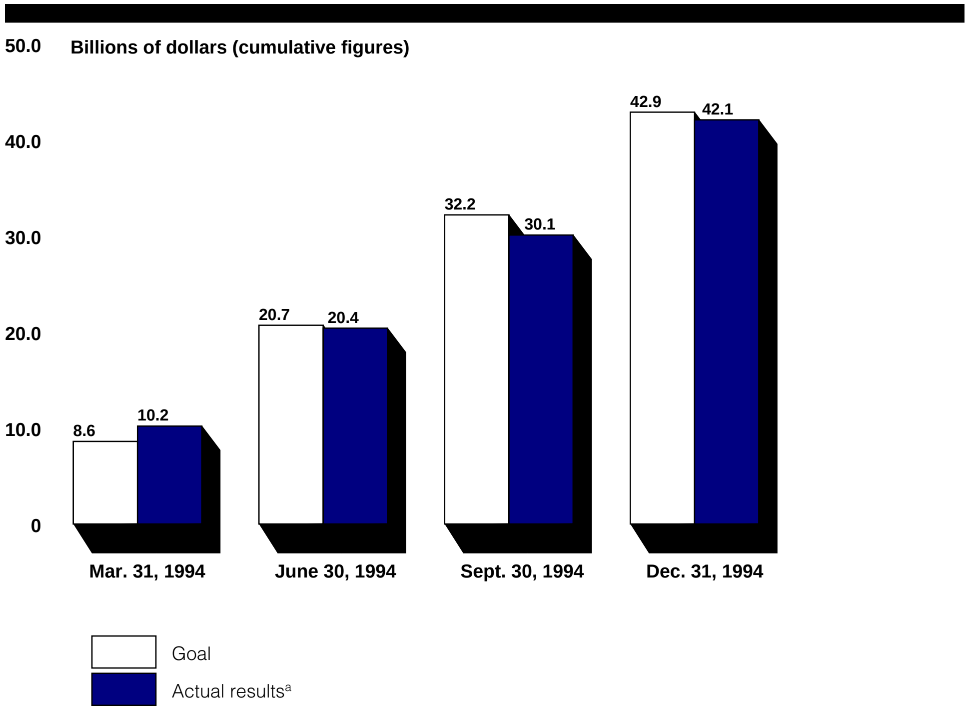
- Minimize losses on resolutions of failed thrifts.
- Maximize recoveries from asset disposition while minimizing the impact on local markets and preserving the availability of affordable housing.
- Maximize opportunities for minorities and women in all RTC activities.
- Strengthen safeguards against waste, fraud, and mismanagement.
- Pursue professional liability cases on a cost effective basis and refer criminal cases to the Department of Justice.
- Terminate RTC operations and transfer personnel, assets, and systems to FDIC by December 31, 1995.

Depending on RTC's accomplishments, the business plan is to be revised where needed. RTC's Office of Planning, Research and Statistics is responsible for maintaining the business plan and updating it as circumstances warrant.

In June 1994, RTC provided to the Oversight Board a new report that provided detailed information on the extent to which RTC was achieving the plan's goals. This report, which is to be prepared quarterly, is used to monitor RTC's performance against the plan. For example, as shown in Figure III.1, the 1994 quarterly reports include information comparing RTC sales and collections goals with actual results.

[1] Refers to section 21A of the Federal Home Loan Bank Act, which was amended by section 3 of the RTC Completion Act. The reforms in appendixes III through VI are numbered as they are in the RTC Completion Act.

Figure III.1: Comparison of 1994 RTC Quarterly Sales and Collections Goals With Actual Results



[a]The figure for actual sales and collections results as of December 31, 1994 is a preliminary figure subject to adjustment.

Source: RTC data.

In August 1994, RTC issued an updated business plan. The revised plan incorporated the requirements of the RTC Completion Act management reforms that were not included in the original plan. For example, RTC changed its asset disposition priorities for performing 1-4 family mortgage loans to include the minority preference resolutions program.[2] Also, asset sales projections were updated. For example, for 1994, total projected book value reductions from sales and collections increased from $35.7 billion to $43.8 billion and for 1995, decreased from $15.2 billion to $12.1 billion.

The underlying economic assumptions and annual asset sales goals in the revised plan generally appear to be reasonable. However, as discussed in our report entitled Resolution Trust Corporation: Data Limitations

[2]Under this program, minority acquirers of thrifts in PMNs may exercise an option to purchase performing 1-4 family mortgage loans from RTC at fair market value. (See reform 17 in app. IV.)

Impaired Analysis of Sales Methods (GAO/GGD-93-139, Sept. 27, 1993), without consistent and comprehensive sales and related financial data for individual asset dispositions, which RTC does not have, it cannot accurately measure the effectiveness of its sales strategies.

Reform 4: Division of Minorities and Women Programs [Sec. 21A(w)(4)]

Requirements of the Reform: This reform requires that RTC maintain a division of minorities and women programs. Also, RTC is required to establish the head of this division as a vice president and member of RTC's Executive Committee.

Status

Action completed.

Description of RTC Actions

This reform was fully implemented before the RTC Completion Act became law. In April 1993, RTC elevated the Assistant Vice President of the Department of Minority and Women's Programs to Vice President and moved the program up in the organizational level to the Division of Minority and Women's Programs. As a Vice President, the head of the division serves on RTC's Executive Committee.

Reform 5: Chief Financial Officer [Sec. 21A(w)(5)]

Requirements of the Reform: This reform requires RTC's CEO to appoint a CFO. The CFO is to have no operating responsibilities other than as CFO and is to report directly to RTC's CEO. In addition, the CFO will have similar authority and duties pursuant to the Chief Financial Officers Act of 1990[3] that the Oversight Board determines to be appropriate for RTC.

Status

Action completed.

Description of RTC Actions

This reform was implemented before the RTC Completion Act became law. On June 1, 1993, RTC appointed a CFO who reports directly to RTC's CEO and is responsible for all RTC accounting and financial management activities. Along with this appointment, RTC consolidated various accounting and financial management functions into a division headed by the CFO and placed specific units under the CFO's direction. These units included the offices of Budget and Planning, Management Control, Field Accounting and Asset Operations, and Accounting Services. Also, the financial service

[3] 31 U.S.C. 901 (Supp. IV 1993).

centers at the four main RTC field offices in Atlanta, Dallas, Denver, and Kansas City report directly to the CFO.

In addition, the CFO made changes to enhance RTC's efforts to strengthen and improve internal control systems. These changes included the following:

- Developing and implementing systems to monitor ongoing audits, assuring appropriate monitoring and reporting to management of findings related to internal control systems, and tracking the progress of timely and effective corrective actions.
- Setting up quality assurance units in the financial service centers with direct reporting responsibility to the Vice Presidents, who in turn report to the CFO.
- Allocating additional resources to the internal control function in order to assure that the commitment to improve and strengthen internal control is achieved.
- Developing and presenting a required nationwide internal control training program for all RTC management personnel.

In our report, Resolution Trust Corporation: Status of Management Efforts to Control Costs (GAO/GGD-94-19, Oct. 28, 1993), we recommended that RTC support its newly appointed CFO in efforts to control costs, strengthen the use of the budget process as a fiscal control tool, and improve the usefulness of expense accounting information so it could be used as a managerial tool. In response to our recommendations, the CFO was given clear authority over all agency financial functions, including cost control, and several financial integrity initiatives were implemented.

In March 1994, the CFO informed us that RTC estimated that its efforts, up to that date, in implementing our cost control audit recommendations had resulted in cost savings of about $30 million in the operations of three financial service centers. These savings were achieved by renegotiating with contractors for better rates, consolidating and standardizing contracts, as well as improving centers' operational efficiencies. In September 1994, the CFO advised us that RTC had strengthened its budget process to better control and reduce expenses. Due in part to measures implemented to control expenses, RTC's spending against its 1994 budget of $2.64 billion for noninterest expenses was about $2.20 billion, or 17 percent ($437 million) under budget.

Furthermore, the CFO's operating philosophy was designed to improve RTC's responsiveness to audit findings in general. This operating philosophy consists of the following:

- Encouraging positive and concise responses to audit findings and recommendations.
- Utilizing audit findings to assist in managing RTC.
- Making a strong commitment to taking corrective actions for improvements.
- Encouraging external audit entities to report issues to RTC management for early resolution of control weaknesses or cost recovery.
- Maintaining a strong audit control and follow-up system.

Reform 9: Corrective Responses to Audit Problems [Sec. 21A(w)(9)]

Requirements of the Reform: This reform requires RTC to respond to problems identified by auditors of its financial and asset disposition operations, including problems identified in IG, GAO, and the Oversight Board's audit committee reports; or to certify to the Oversight Board that no action is necessary or appropriate.

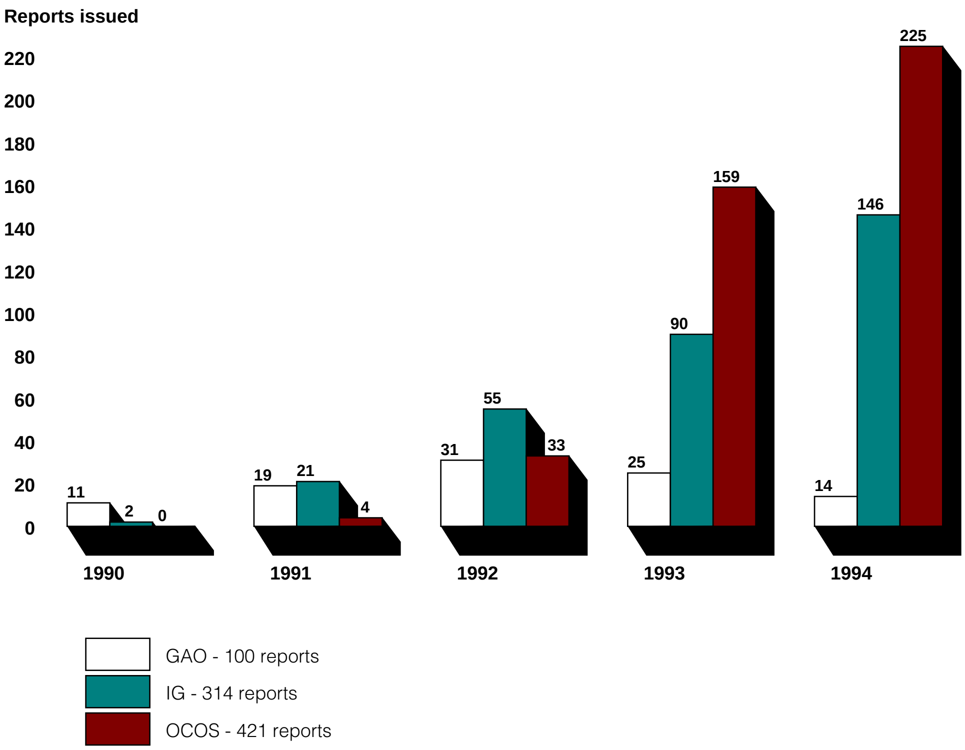
Status

Action taken/monitoring required.

Description of RTC Actions

Under Secretary Bentsen's 9-point plan, RTC was directed to implement a system—such as is required under Office of Management and Budget guidelines for executive agencies—to provide prompt, systematic, and effective follow-up on the findings and recommendations contained in the audit reports. As of December 31, 1994, GAO, IG, and RTC's Office of Contractor Oversight and Surveillance (OCOS) had issued a combined total of 835 audit reports as shown in Figure III.2.

Figure III.2: Number of Audit Reports Issued by GAO, IG, and OCOS From January 1, 1990, Through December 31, 1994



Note: The substantial increases in IG and OCOS audit reports in 1993 and 1994 are primarily attributable to final audits at the time contracts were completed or terminated.

Source: GAO and RTC data.

At the beginning of October 1994, the three audit organizations had collectively 475 audits under way. In addition, the IG had plans for another 125 audits and OCOS had plans for another 250 audits for the 15-month period from October 1994 through December 1995.

To strengthen its audit resolution controls, on July 20, 1993, RTC issued Circular 1250.2 Management Decision Process and Audit Followup. This directive established a new audit follow-up system for all internal and external reviews and other evaluations of RTC organizations, programs, operations, and contractors. The management decision and audit follow-up process encompasses all efforts taken by RTC to address findings, implement accepted recommendations, and verify completion of corrective actions.

RTC's process incorporates, as appropriate, the concepts of Office of Management and Budget Circular A-50 on audit follow-up, although, as a mixed-ownership government corporation, RTC is not required to follow this circular. The audit follow-up system RTC has installed requires it to

- maintain records on the status of audit reports and associated recommendations,
- track management decisions and final actions,
- establish accounting controls over amounts due RTC from contractors as a result of costs disallowed by management, and
- provide periodic reports to RTC senior management and the Oversight Board.

The audit follow-up directive states that RTC managers at all levels will ensure completion of corrective actions and submission of required supporting documentation in a timely manner. Those managers responsible for taking corrective actions are required to complete and sign an "Audit Follow-up Action Certification Statement" certifying that all necessary corrective actions have been taken and all necessary documentation has been obtained.

In March 1993, when the 9-point plan was announced, RTC did not know the total number of audit recommendations that were still open, from all sources, that had to be addressed. Since then, RTC has placed a high priority on identifying and tracking GAO and IG audit recommendations and corrective actions. During 1994, RTC expanded its focus to include OCOS recommendations resulting from OCOS' contract audits.

As of December 17, 1993, when the RTC Completion Act became law, RTC data indicated that it had completed about 95 percent (1,438 of 1,511) of the actions to implement GAO and IG audit recommendations. This percentage does not include actions taken on OCOS recommendations because, at the time, RTC was not tracking these actions. However, during 1994, RTC expanded the scope of its audit follow-up system to include OCOS findings, recommendations, and planned corrective actions. As of January 23, 1995, the percentage of completed corrective actions to implement GAO, IG, and OCOS audit recommendations was about 76 percent (3,485 of 4,587). This decrease is due primarily to the substantial increase in the number of audit reports issued by the IG and OCOS during 1993 and 1994. Table III.1 shows the status of corrective actions on GAO, IG, and OCOS recommendations, as of January 23, 1995.

Table III.1: Summary of Corrective Actions on GAO, IG, and OCOS Audit Reports Since January 1, 1990, as of January 23, 1995

	Source		
	GAO	IG	OCOS[a]
Number of corrective actions RTC management agreed to take	456	2,115	2,016
Corrective actions completed	438	1,712	1,335
Corrective actions expected to be completed	18	403	681
by April 30, 1995	13	349	502
by August 31, 1995	2	7	178
by December 31, 1995	0	12	1
after December 31, 1995	0	1	0
no completion date set	3	34	0

Note: GAO and IG data includes all planned actions. OCOS data includes only planned actions for significant findings identified by OCOS in its report abstracts since January 1993.

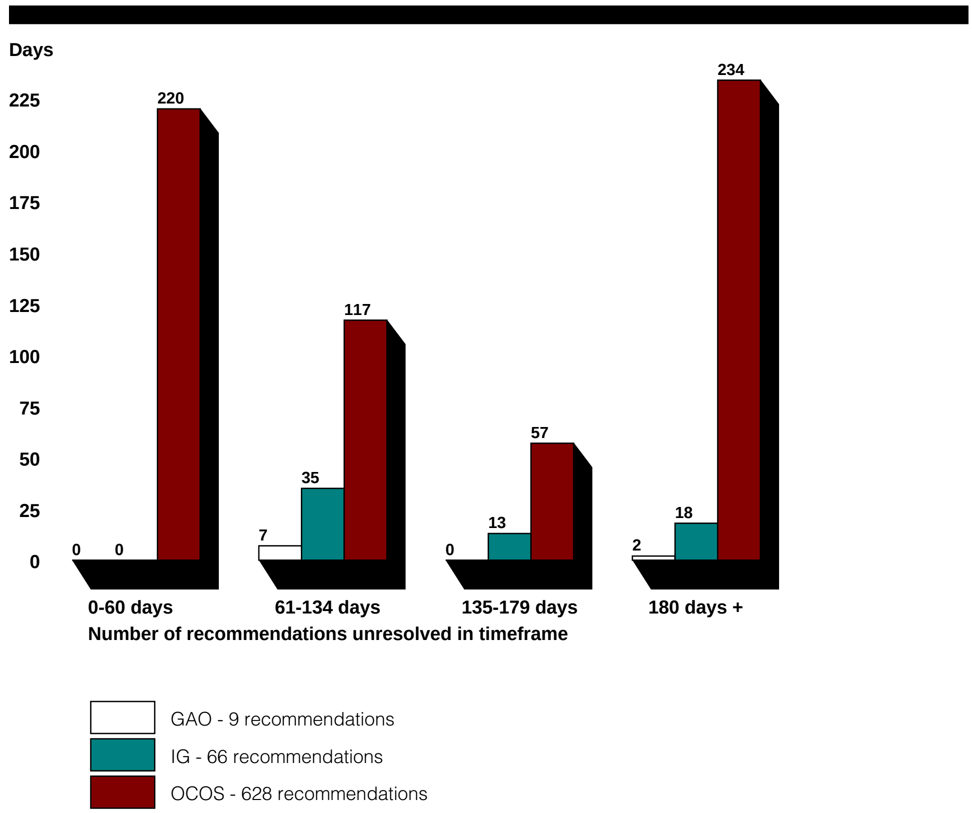
[a]OCOS Data as of December 31, 1994.

Source: RTC Management Reporting System.

The data in table III.1 do not include audit recommendations for which a management decision has not been made. RTC refers to these recommendations as "unresolved management decisions." These are situations where RTC management has not yet committed to implementing a specific audit recommendation or agreed upon the specific actions to be taken.

RTC's policy is to make a final management decision on addressing an audit recommendation as soon as possible, but not later than 180 days after the date of the final audit report. Corrective actions are to begin as soon as practical once the final management decision is made. Figure III.3 summarizes the number and age of unresolved management decisions on GAO, IG, and OCOS recommendations as of January 23, 1995.

Figure III.3: Summary of Unresolved Management Decisions by Audit/Review Source, as of January 23, 1995



Source: RTC Management Reporting System.

Although there are a number of instances for which RTC management and the auditors have not agreed upon specific actions to be taken to implement audit recommendations, RTC has been working to reduce the number of unresolved management decisions. However, it still has a high number of recommendations for which RTC has not reached agreement with the auditors. As of January 23, 1995, the total number of unresolved management decisions was 703. This condition is primarily the result of 225 audit reports issued by OCOS in 1994.

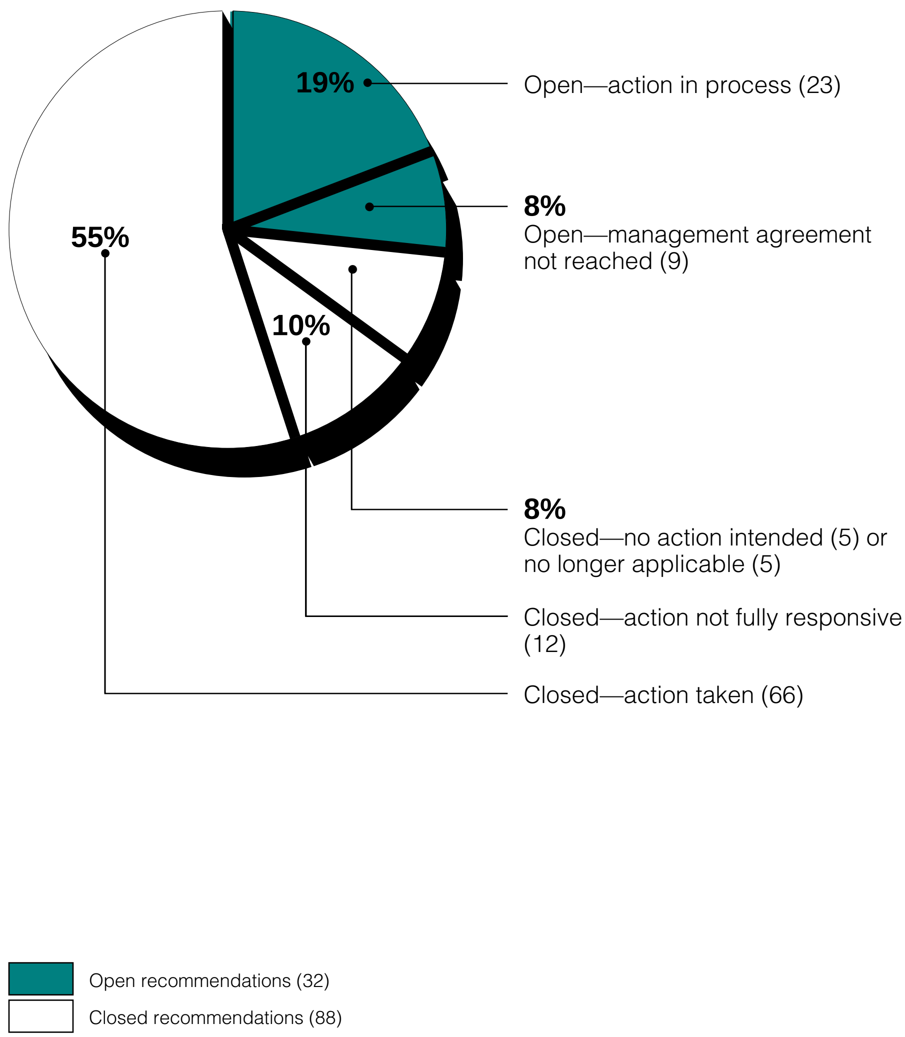
As shown in Figure III.3, nearly all of the unresolved management decisions that exceed RTC's goal of 180 days, as of January 23, 1995, were on OCOS recommendations (234 of 254). Our analysis showed that 86 of these recommendations had been unresolved for over 540 days, or 3 times

RTC's goal. The oldest were two recommendations from a report issued November 14, 1991, that had been unresolved for 1,166 days.[4]

GAO's recommendation tracking system differs from RTC's system. GAO's system tracks recommendations closed while RTC's system tracks corrective actions completed. As of January 23, 1995, GAO's tracking system showed that 88 of 120 (73 percent) of the recommendations that we have made to RTC since January 1990 were closed. Thirty-two (27 percent) of our recommendations were still open. These recommendations are listed in appendix VII. Figure III.4 shows the status of GAO recommendations as of January 23, 1995.

[4]Termination of Ralph Edgar Group, Inc. Asset Management Contracts, RTC Office of Contractor Oversight and Surveillance (OCOSCOS-91-02-SP, Nov. 14, 1991).

Figure III.4: Status of GAO Recommendations Made to RTC Since January 1990, as of January 23, 1995



Source: GAO data.

Audit reports issued by the IG and OCOS often include questioned costs associated with the activities they reviewed. None of GAO's audit reports questioned specific costs. Table III.2 shows the status of IG and OCOS questioned costs, as of January 19, 1995.

Table III.2: Status of Questioned Costs by the IG and OCOS, as of January 19, 1995

Dollars in millions

Questioned costs	IG	OCOS	Total
Total identified	$161	$79	$240
Documented or otherwise resolved by management	41	51	92
Pending management decision	43	20	73
Management agreed to pursue	77	8	85

Source: RTC data.

Of the $240 million of total questioned costs identified by the IG and OCOS, RTC management has agreed to pursue $85 million. Also, in taking action to address audit findings, RTC management identified an additional $23 million of questioned costs, which raises the total amount being pursued from $85 million to $108 million. Table III.3 shows the status of management's pursuit of the questioned costs, as of January 19, 1995.

Table III.3: Status of Questioned Costs Being Pursued by RTC Management, as of January 19, 1995

Dollars in millions

Questioned costs	IG	OCOS	Total
Total costs being pursued by management	$100	$8	$108
Recovered	51	4	55
Written-off	4	1	5
In process	45	3	48

Source: RTC data.

In January 1995, RTC reported to the Oversight Board Audit Committee that it had recovered $55 million of the $240 million identified by the IG and OCOS as questioned costs.[5]

Reform 9 also requires RTC to notify the Oversight Board when no action is needed or appropriate in response to an audit recommendation. In such instances, RTC's procedures require the CFO, on behalf of the CEO, to certify accordingly to the Oversight Board. RTC has reviewed all of its GAO and IG audit resolution actions since December 17, 1993. On November 16, 1994, the CFO informed the Oversight Board that RTC field office vice presidents and senior headquarters managers have determined and certified that in certain instances no action was required on 2 GAO and 57 IG recommendations. Such circumstances occurred, for example, when a

[5]GAO did not audit or verify the accuracy of these figures.

property was sold, a former contractor was no longer in business, or the estimated cost of litigation or other recovery attempts would exceed the potential recovery amount. We concur with RTC's decisions on the two GAO recommendations. In each case, we agreed that implementing the recommendation was not feasible.

While RTC has completed actions to establish an audit follow-up system, RTC plans to continue monitoring audit resolution activities with this system to ensure that (1) as many recommendations as feasible are fully implemented prior to RTC's termination and (2) any open recommendations, which are still valid at that time, such as those related to questioned contract costs, are transferred to FDIC for final action. RTC plans to focus special attention on recommendations in contract audit reports issued by OCOS and the IG in the final year of RTC operation.

Reform 10: Assistant General Counsel for Professional Liability [Sec. 21A(w)(10)]

Requirements of the Reform: The reform requires RTC to appoint, within the Division of Legal Services, an AGC for Professional Liability. The AGC is to (1) direct the investigation, evaluation, and prosecution of all professional liability claims involving RTC and (2) supervise all legal, investigative, and other personnel and contractors involved in the litigation of such claims. Also, the AGC is required to semiannually submit to Congress a comprehensive litigation report on all civil actions in which RTC is a party that were initiated or pending during the period covered by the report and on other activities of the AGC. These reports are due on April 30 and October 31 of each year.

Status

Action taken/monitoring required.

Description of RTC Actions

By the time the RTC Completion Act became law, the position for an AGC for Professional Liability had already been established and filled. Subsequently, the AGC was given the responsibilities of the statutory position and actions were completed to implement the mandated organizational changes and fulfill the semiannual reporting requirements. RTC plans to continue monitoring the results of these actions to ensure that (1) a unified legal and investigative team is maintained and (2) the semiannual reports on the professional liability program are submitted to Congress as required.

At the time that the act became law, RTC's investigators and its attorneys were in two different organizational units. RTC's AGC for Professional

Liability believes that this reform's intent is to ensure that RTC professional liability personnel, including investigators and attorneys, operate as a fully unified legal and investigative team, able to make decisions and recommendations on professional liability issues in a coordinated manner.

RTC took its first formal step toward implementing these organizational changes when RTC's General Counsel issued a memorandum dated March 25, 1994. The memorandum informed affected RTC staff that the reform required a unified management structure for the professional liability program and the incorporation of the Investigations Unit into the Legal Services Division.

In May 1994, RTC's Acting CEO and its General Counsel each signed an organization chart that showed the Office of Investigations to be a unit within the Division of Legal Services. During April, May, and June, a series of delegations of authority were issued to further implement the organizational changes. On July 18, 1994, a memorandum issued jointly by RTC's AGC for Professional Liability and the Director of its Office of Investigations restated and redefined the roles and responsibilities of RTC's Professional Liability Section and its Office of Investigations.

These actions provided the framework for implementing the required changes. RTC plans to continue monitoring and evaluating the effectiveness of these organizational changes, and if additional actions are needed, they are to be taken in order to assure a complete unification of the legal and investigative team.

On October 31, 1994, RTC submitted to Congress its second semiannual report for the period ending September 30, 1994.[6] It contained information on initiated and pending civil actions, program achievements, and impediments to RTC's ability to assert claims. In addition, the second semiannual report noted that "the [Professional Liability Section] managerial reforms required by the [RTC Completion] Act have been fully implemented."

[6]Professional Liability Section Semiannual Report, for the period April 1, 1994 through September 30, 1994, RTC (Oct. 31, 1994).

Reform 11: Management Information System [Sec. 21A(w)(11)]

Requirements of the Reform: This reform requires RTC to maintain an effective management information system capable of providing complete and current information to the extent that the provision of such information is appropriate and cost-effective.

Status

Work in progress.

Description of RTC Actions

Secretary Bentsen's March 1993 9-point plan included a reform that required RTC to improve its management information systems. At that time, RTC established three objectives to implement this reform: (1) improve the quality of data in its systems, (2) enhance information systems to support business needs, and (3) improve information provided to senior executives for decisionmaking.

When the RTC Completion Act became law in December 1993, it included a similar reform that required RTC to maintain a management information system capable of providing complete and current information. To implement the act's reform, RTC decided to address only the first two objectives that it initially established to address the reform under Secretary Bentsen's plan. According to officials in DIRM, the third objective was dropped because RTC's senior executives had not identified any information needs that would require systems' modifications.

RTC's information systems remain critical to its efforts to manage and sell failed thrift assets and to FDIC's task of assuming responsibility for any remaining RTC operations after December 31, 1995. In the past, RTC's information system problems included unclear or changing requirements, poor response time, difficulty of use, and inaccurate and incomplete data. Over the last 2 years, RTC has made many improvements. Its system requirements are now better defined, and it has completed all of its system development projects. In addition, it has modified its systems to improve response times and make them easier to use.

Accurate and complete information is still critical to RTC's ability to efficiently and effectively dispose of assets. Poor information can increase the uncertainty faced by investors and, therefore, may reduce the prices that they are willing to pay for RTC's assets. In June 1994, RTC completed initial data quality action plans for its 17 critical information systems. RTC uses these 17 systems to manage unsold assets, support financial transactions, and report on activities in which congressional oversight committees have had significant interest. A major component of RTC's strategy to improve the quality of data in these systems is the use of computer software to identify problems such as missing or inconsistent data.

While RTC is making progress in improving the quality of data in its systems, some data quality problems continue. On November 30, 1994, RTC had unsold real estate with a total book value of about $2 billion and unsold loans with a total book value of about $17 billion. RTC's December 1994 internal reports showed that about 9 percent of unsold real estate records in the Real Estate Owned Management System (REOMS) had computer detectable errors, such as missing data, and about 19 percent had potential errors called warnings. For example, a large discrepancy between the book value and appraised value of an asset is called a warning. Warnings require follow up to determine whether the questionable data is correct. Also, RTC reports showed data quality improvements in the Central Loan Database (CLD), which includes information on loans and which is used to help develop loan sales initiatives. As of October 1994, the number of loan records with one or more computer detectable errors was about 19 percent compared to 57 percent when we analyzed the CLD data in December 1993.

Although RTC is continuing its data quality program, RTC officials stated that further reductions in the percentage of computer detectable errors in both REOMS and CLD will be difficult to achieve, and errors may increase over the next several months. Officials gave three reasons for this view: (1) as asset sales occur, those assets for which there is deficient data are more likely to remain unsold and become an increasing percentage of the total loan portfolio or real estate property inventory; (2) much of the deficient data predates 1992 and is either unavailable or not easily accessible; and (3) as RTC reduces staffing levels, there will be fewer resources to research potential data errors. In addition, with fewer resources, it will become increasingly difficult to ensure that data errors are corrected.

For these reasons, RTC is reassessing its efforts to improve the quality of data in the 17 major systems to help ensure that these efforts are properly focused on the data most critical to completing its mission. Its goal is to target critical data elements that, if not correct, could have a significant negative impact on the management of assets or the accuracy of information reported to oversight committees. This reassessment is expected to be completed by the end of March 1995.

We agree with this approach in RTC's final year of existence. The ultimate value of RTC's efforts, however, depends on its ability to complete the implementation of the data quality action plans in time to affect current operations and on RTC's ability to sustain improvements in data quality. By concentrating on the most critical data elements that are important to managing and selling assets, RTC should make the best use of its efforts. In addition, the benefits of better data should also help FDIC when it assumes responsibility for those assets that remain to be sold after RTC's termination. Furthermore, RTC's ongoing need for up-to-date, accurate, and complete corporate information is intensified by its need for information to support appropriate short-term business decisions, given that RTC's responsibilities will soon transfer to FDIC.

The Secretary of the Treasury, in his capacity as Chairman of the Oversight Board, will need similar information to carry out his responsibility for overseeing the transfer of RTC personnel and systems to FDIC, as required under section 7 of the RTC Completion Act. This section requires that in the transfer of RTC systems to FDIC, any RTC management, resolution, or asset disposition system that the Secretary of the Treasury determines, after considering the recommendations of the interagency RTC/FDIC transition task force, has benefited RTC shall be transferred to and used by FDIC. Also, section 7 requires that RTC personnel involved with these systems who are eligible for transfer to FDIC shall be transferred for continued employment. In this area, RTC has begun working with FDIC to identify systems and data that could be transferred to FDIC as it picks up responsibility for RTC's activities.

Under the second objective, RTC is selectively enhancing its primary information systems that support its financial operations and asset disposition activities. A total of 11 enhancements are under way or have been completed for 4 primary systems at an estimated cost of about $1 million. RTC expects this work to be completed by the end of March 1995. The systems to be enhanced are the (1) Control Totals Module, which is used to post summary asset related financial transactions to the general ledger; (2) Warranties and Representations Accounts Processing System, which tracks information for each asset sale that includes a representation and warranty; (3) Seller Financing System's Commercial and Multi-Family module, which maintains data RTC needs to close on loans secured by commercial real estate properties; and (4) Asset

Manager System, which is a cash management system that captures all income and expenses associated with RTC assets managed by Standard Asset Management and Disposition Agreement (SAMDA) contractors.

Although RTC dropped the third objective—to improve information to senior executives for decisionmaking—RTC officials told us that the needs of senior executives continue to be considered as they implement the second objective of enhancing systems to support business needs and modify management information reports. Our interim report noted that we believed that the third objective was still relevant because of RTC's ongoing need for up-to-date, accurate, and complete information, especially in light of the pending transition of RTC responsibilities to FDIC. In response to our concern, in November 1994, DIRM completed a survey to determine whether there were any unmet senior management reporting needs. The survey results showed that RTC managers were generally pleased with the information systems and the reports available to them.

Reform 12: Internal Controls Against Fraud, Waste, and Abuse [Sec. 21A(w)(12)]

Requirements of the Reform: This reform requires RTC to maintain effective internal controls designed to prevent fraud, waste, and abuse; identify any such activity should it occur; and promptly correct any such activity.

Status

Action taken/monitoring required.

Description of RTC Actions

On March 27, 1992, RTC issued Circular 1250.1, Internal Control Systems, that established its internal control program and requires managers to (1) identify activities or functions (assessable units) subject to risk; (2) conduct an assessment and rate the susceptibility of the function or activity to risk (vulnerability assessment); (3) schedule high-risk functions for annual examination (management control plan); (4) conduct detailed examination (internal control review) of the function to determine if internal controls and procedures are current, adequate, and cost effective; and (5) develop and implement corrective actions to resolve deficiencies and strengthen controls.

Due to the high cost of resolutions and the volume of the assets under its control, RTC needs a strong internal control structure to protect against loss and provide accurate reporting. To address this need, RTC has implemented procedures to assess the effectiveness of its internal controls, to report the results of that assessment, and to track the status of weaknesses identified by the internal process, as well as those identified by GAO and RTC's IG. RTC also trained more than 1,000 managers and senior personnel in the concepts of RTC's internal control system and the new audit follow-up procedures.

On March 31, 1994, RTC issued its third annual report on its system of internal controls as of December 31, 1993. RTC reported that during 1993 it had stepped up its efforts to correct internal control deficiencies in all of its high-risk areas. Specifically, it reported that additional staff and contractor support resources were acquired and dedicated to correcting previously identified material weaknesses and nonconformances, increasing contractor oversight, and completing development and implementation of needed information systems and information system modifications. The report identified five high-risk areas in its operations. These areas were: (1) contracting systems/systems oversight; (2) accounting, financial management and reporting, and operations; (3) asset management and disposition; (4) information systems management; and (5) legal services.

RTC stated in the report that during 1993 it had completed 191 of the 223 actions planned to correct material weaknesses and material nonconformances, which had been identified in 1993 and prior years, as shown in table III.4. RTC expects to complete planned actions on the remaining 32 material weaknesses and material noncomformances during 1994.

Table III.4: Status of Planned Actions to Correct Material Weaknesses and Material Nonconformances Identified in 1993 and Prior Years

High-risk area	Actions planned in 1993	Actions completed in 1993	Actions in process as of 12/31/93
Contracting systems/systems oversight	40	29	11
Accounting, financial management and reporting, and operations	58	51	7
Asset management and disposition	84	80	4
Information systems management	28	22	6
Legal services	13	9	4
Totals	**223**	**191**	**32**

Source: RTC 1993 Internal Control Report, March 31, 1994.

We tested these results to determine whether the actions indicated as completed had actually been accomplished. We randomly selected 50 of the 191 actions RTC reported it had completed during 1993. RTC provided documentary evidence for 44 of the 50 actions showing that the planned actions had been completed. For the other six actions, RTC did not have adequate supporting documentation in its files, although we have no evidence that indicates that the actions were not completed. Furthermore, on the basis of work done and documentation gathered on other assignments, we confirmed the completion of 27 additional planned actions not included above.

Also, our work showed that one action, which RTC reported as completed had not corrected the targeted internal control weakness. RTC reported that, as of December 1993, suspense items were being cleared within 60 days. However, although RTC's clearance of suspense items had improved, our 1993 financial audit work showed that cash items were not always posted within 60 days. Subsequently, RTC improved its performance. Current RTC reports show that as of November 1994, 97 percent of the items placed in suspense are being posted within the 60-day goal.

Reform 13: Failure to Appoint Certain Officers of the Corporation [Sec. 21A(w)(13)]

Requirements of the Reform: Under this reform, the failure to fill any positions established by section 21A of the Federal Home Loan Bank Act (12 U.S.C. 1441a) or any vacancy in any such positions,[7] is to be treated as a failure to comply with the requirements of the management reforms. RTC is required to ensure that any vacancies in these senior level positions are filled. If additional RTC funding in excess of $10 billion is needed, the Secretary of the Treasury must certify that RTC has taken action necessary to comply with the requirements of the management reforms or is making adequate progress towards full compliance.

Status

Action taken/monitoring required.

Description of RTC Actions

By appointing individuals to the positions identified in section 21A of the Federal Home Loan Bank Act, RTC has fulfilled the initial requirements of this reform. However, RTC officials recognize—and we agree—that oversight must be maintained so that if a vacancy occurs in any of these positions, appropriate steps can be taken to quickly appoint replacements.

[7]These include the RTC's Deputy CEO; General Counsel; CFO; Vice President for Minorities and Women Programs; Assistant General Counsel for Professional Liability; and an executive-level position for pursuing cases, civil claims, and administrative actions against institution affiliated parties of thrifts under RTC's jurisdiction.

Through December 31, 1994, the positions required by this reform remained filled.

Reform 14: Reports (Disclosure of Expenditures and Public Disclosure of Salaries) [Sec. 21A(w)(14)]

Requirements of the Reform: This reform requires RTC to include in its annual report an itemization of specific expenditures during the year covered by the report. Also, the annual report is to disclose salaries and other compensation paid during the year to directors and senior executive officers at any thrift for which RTC was appointed conservator or receiver.

Status

Action taken/monitoring required.

Description of RTC Actions

As part of its 1993 annual report, which was issued in September 1994, RTC included information on (1) the failed thrifts resolved during 1993 and the amount of loss funds used for each resolution transaction and (2) the salaries and other compensation paid to senior executive officers at all the thrifts that were in RTC's conservatorship program during 1993. The report showed that no compensation was paid to directors of thrifts in conservatorship because RTC did not retain any of the directors. Also, RTC did not appoint new directors for these thrifts. Furthermore, thrifts in receivership do not have directors or officers and therefore, no disclosure of salaries and other compensation is required.

RTC plans to ensure that similar information is included in its 1994 and 1995 annual reports.

Reform 21: Client Responsiveness Units [Sec. 21A(w)(21)]

Requirements of the Reform: This reform requires RTC to ensure that every RTC regional office has a client responsiveness unit responsible to the RTC's ombudsman.

Status

Action completed.

Description of RTC Actions

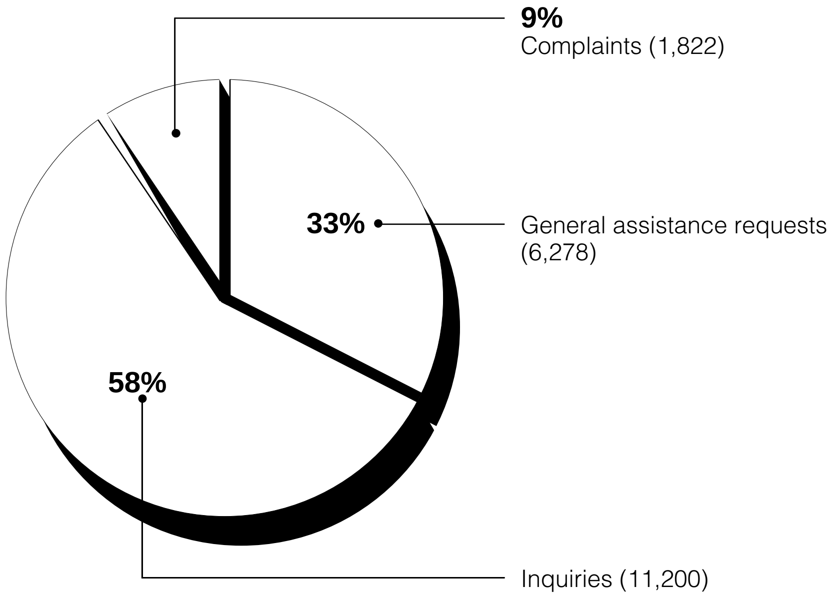
According to the RTC ombudsman, the client responsiveness program was established in July 1992. The purpose of the program was to (1) ensure that RTC employees responded to inquiries, complaints, and requests for general assistance from the public—whom RTC generally refers to as clients—in a timely and accurate manner and (2) provide resolutions to such inquiries, complaints, and requests that would be equitable to both the client and RTC.

To implement the reform, RTC updated its policy directive on the client responsiveness program. In August 1994, RTC's Deputy and Acting CEO distributed the updated directive to all RTC employees. According to the RTC ombudsman, this action was taken to reinforce the importance of the program and ensure that all RTC employees were aware of the standardized procedures for responding to client inquiries and complaints. In distributing the updated directive, RTC's Deputy and Acting CEO also highlighted how the program was designed to ensure that RTC would be as responsive as possible to the public, in keeping with the recommendations of the National Performance Review that identified ways in which government agencies can improve their methods for dealing with and responding to the public.[8]

To track its workload under the client responsiveness program, RTC set up three categories of contacts it receives: (1) general assistance, which includes requests that can be resolved and answered quickly and do not require research or consultation with other RTC personnel, such as requests for directions to an RTC office; (2) inquiries, which include questions or requests for assistance from clients that take more time to resolve than do general assistance requests because they require some research or consultation with other RTC personnel, such as questions about the disposition of a specific asset; and (3) complaints, which involve clients who are dissatisfied or have expressed grievances in dealing with RTC. According to RTC, during the period June 1994 through December 1994, RTC received a total of 19,300 general assistance requests, inquiries, and complaints. Figure III.5 shows a percentage breakdown of these three categories of client contacts that RTC received during this period.

[8]The National Performance Review was a major management reform initiative that identified ways to make the government work better and cost less. Its September 1993 report made nearly 400 recommendations for improving operations in a wide range of government programs and activities (From Red Tape to Results: Creating a Government That Works Better and Costs Less, report of the National Performance Review, Vice President Al Gore, Sept. 7, 1993).

Figure III.5: Percentage of General Assistance Requests, Inquiries, and Complaints RTC Received During the Period June 1994 Through December 1994



Source: RTC ombudsman's office.

The RTC ombudsman oversees the client responsiveness program by requiring that monthly reports be prepared to provide information on the extent of client responsiveness activities in RTC headquarters and the six field offices. The reports include such data as the number of general assistance requests, inquiries, and complaints received and the number of inquiries and complaints resolved. Because general assistance requests are resolved in a single telephone contact, RTC does not maintain statistics on the time it takes to resolve such requests. However, because inquiries and complaints require additional research, RTC keeps track of the length of time it takes to resolve them.

The updated client responsiveness directive dated August 5, 1994, included a time standard of 15 business or working days for resolving clients' inquiries and complaints. In the monthly reports, RTC includes data on the average time it takes to resolve inquiries and complaints. This figure varies from month to month, depending on the number of inquiries and complaints received and resolved and their complexity. Most recently, in

December 1994, the average resolution time for inquiries and complaints was about 12 business days.

According to the RTC ombudsman, complaints generally comprise the smallest percentage of the three types of client contacts that RTC receives. During the period June 1994 through December 1994, the complaints most often involved client concerns about (1) information on RTC-controlled assets, (2) performance by RTC contractors, and (3) communications with RTC.

Since the RTC Completion Act became law, RTC has ensured that all its field offices had client responsiveness units. Also, the RTC ombudsman has provided policy guidance and direction to the managers of the client responsiveness departments in the six field offices and ensured that the program is administered consistently.

Additional Details on Actions Taken by RTC to Implement Reforms Involving Its Resolution and Disposition Activities

Reform 2: Marketing Real Property on an Individual Basis [Sec. 21A(w)(2)]

Requirements of the Reform: This reform established requirements concerning how RTC marketed and justified the disposition of real property. Specifically, RTC is required to market any undivided or controlling interest in real property assets on an individual basis (excluding assets transferred in purchase and assumption transactions and assets transferred to a new thrift organized by RTC under section 11(d)(2)(F) of the Federal Deposit Insurance Act) for at least 120 days before making these assets available for sale or other disposition on a portfolio basis or otherwise included in a multiasset sales initiative.

Also, RTC is required to publish regulations that (1) implement these marketing requirements and (2) justify in writing the inclusion of real property assets in a portfolio or other multiasset sales initiative after the 120-day marketing period.

Status

Action taken/monitoring required.

Description of RTC Actions

On April 15, 1993, RTC's Vice President for Asset Management and Sales issued a memorandum to RTC senior managers and SAMDA contractors stating that all real property assets must be marketed for at least 120 days before being offered in multiasset sales initiatives, such as portfolio sales. Auctions of single real property assets were exempt from this requirement. The memorandum further stated that real property assets remaining unsold after 120 days of active marketing may be included in multiasset sales initiatives only after meeting certain requirements. Specifically, RTC asset specialists were required to substantiate that including these real property assets in multiasset sales initiatives would result in a greater return to RTC than if the assets were sold individually. These justifications would be included in the specialist's case memorandum requesting approval to dispose of assets on a portfolio basis.

In November 1994, RTC published in the Federal Register a final rule adopting the policies and procedures for implementing the requirements of this reform. However, RTC field office officials believe that the reform's requirements had minimal effect on their operations because

- inventories of real property assets have decreased,
- remaining real property assets generally did not meet the criteria established by the reform, and

- they have been successfully selling real property assets individually through sealed bids and auctions and believe that they are getting a good return.

According to RTC officials, shortly after the RTC Completion Act became law, efforts were initiated to ensure implementation of the reform's requirements. For example, training on the reform's requirements was provided to RTC field office officials who had been delegated specific authority to approve multiasset sales initiatives. Also, as part of its internal control reviews, RTC monitors the field offices' management of remaining asset inventories and sales initiatives to ensure compliance with the reform's requirements.

Reform 3: Disposition of Real Estate Related Assets [Sec. 21A(w)(3)]

Requirements of the Reform: This reform establishes various requirements for the disposition of real property and nonperforming real estate loan assets. Specifically, before selling such assets, RTC must assign the responsibility for the management and disposition of such assets to a qualified person or entity. This responsibility includes (1) analyzing each asset and considering alternative disposition strategies, (2) developing a written management and disposition plan for the asset, and (3) implementing this plan for a reasonable period of time. However, the asset may be included in a bulk transaction if RTC determines in writing that this method of asset disposition would maximize net recovery to RTC while providing opportunity for broad participation by qualified bidders, including MWOBS.

Also, the reform exempted the following assets from these requirements: (1) assets transferred in purchase and assumption transactions; (2) assets transferred to a new institution organized by RTC under section 11(d)(2)(F) of the Federal Deposit Insurance Act; (3) nonperforming real estate loan assets with a book value of not more than $1 million; and (4) real property assets with a book value of not more than $400,000. In addition, nonperforming real estate loan assets and real property assets above these dollar values could be exempted from the reform's requirements if RTC determines in writing that other disposition methods would bring RTC a greater return.

Status

Action taken/monitoring required.

Description of RTC Actions

In February 1994, RTC issued a memorandum that informed staff of the requirements to prepare the appropriate written documents to justify the sales of certain nonperforming real estate loans and other real property. In November 1994, RTC issued in the Federal Register a final rule that adopted the policies and procedures for implementing the reform's requirements. RTC monitors the implementation of the reform's requirements through various methods, including contractor oversight, the internal control review process, and program compliance reviews.

Reform 17: Minority Preference in Acquisition of Thrifts in Predominantly Minority Neighborhoods [Sec. 21A(w)(17)]

Requirements of the Reform: The requirements of this reform are as follows: (1) subject to the least-cost test in section 13(c)(4) of the Federal Deposit Insurance Act, RTC is to give preference to offers from minority bidders for acquiring thrifts located in PMNS; (2) any minority bidder is to be eligible for capital assistance under the minority interim capital assistance program, provided that granting the assistance is consistent with the least-cost test; (3) in connection with the acquisition of a thrift in a PMN by a minority acquirer, RTC is permitted to transfer performing assets from other failed thrifts in addition to the performing assets of the thrift being acquired; and (4) in connection with the acquisition of a thrift in a PMN by a minority acquirer, the acquirer is to have first priority in RTC's disposition of the performing assets.

Status

Action taken/monitoring required.

Description of RTC Actions

RTC has issued several policies and procedures to implement this reform. In July 1994, RTC published a final rule in the Federal Register that defines "predominantly minority neighborhood" as any U.S. Postal ZIP code area in which 50 percent or more of the residents are minorities according to the most recent Census data. However, RTC has the discretion to use other data that may indicate more accurate neighborhood boundaries.

Also, RTC issued a directive that summarized its minority preference resolutions program in three parts. First, RTC will offer a failed minority-owned thrift to investors of the same ethnic group as the failed minority-owned thrift before offering it to others. Second, bidding preferences will be given to offers from minority-owned financial institutions to acquire any failed thrift whose home office is located in a PMN or has 50 percent or more of its offices in PMNS provided this preference results in the least cost to RTC. Moreover, if a minority bidder is within 10 percent of the highest bid made by the nonminority bidder, then a "best and final" round of bidding will take place between the best minority and nonminority bids. RTC also may provide to a winning minority bidder (1) interim capital assistance of up to two-thirds of the required regulatory capital, (2) the option to purchase performing loans (1-4 family mortgages), and (3) branch facilities located in a PMN owned by RTC on a rent free basis for 5 years. Third, RTC will reoffer a failed thrift or its branches to minority-owned financial institutions and make interim capital assistance available if no other acceptable bid not dependent on interim capital assistance is received.

In addition, RTC made significant changes to its minority preference resolutions program. For example, RTC announced that expanded opportunities and incentives would be available for minorities to purchase failed financial institutions. RTC informed nonminority acquirers of offices located in PMNs of minority interest in acquiring these offices and encouraged them to sell such branches to minority acquirers, particularly in cases where the nonminority acquirer planned to close the office. Under this approach, RTC assistance will also be made available to minority acquirers as if the minority acquirer had originally purchased the office.

Furthermore, RTC announced a pilot initiative for the sale of RTC's 10 remaining thrifts in PMNs. Under the pilot initiative, RTC plans to permit the highest minority bidder to match the highest nonminority bid, provided that the minority bid is within 10 percent of the highest premium.

As of December 31, 1994, RTC had resolved all but 1 of the 21 thrifts that had offices in PMNs. Collectively, the 21 thrifts had 58 PMN offices. Of these offices, twelve minority bidders acquired 36 percent (21 of 58). As part of these resolutions, almost $20 million in capital assistance was provided to these acquirers. In addition, rent free offices and the option to purchase assets at market price were also made available. According to RTC, for 4 thrifts, no minority bids were received, and for 5 thrifts, the minority bid was not within the 10 percent of the majority bid.

As part of RTC's minority preference resolutions program, minority acquirers of thrifts in PMNs are provided opportunities to purchase performing 1-4 family mortgage loans. As of February 1, 1995, a total of about $207 million in loans had been sold through this program. In addition, two transactions were still pending at that time. Seven acquirers have purchased loans, one additional acquirer has a purchase that is pending, and two acquirers did not exercise their purchase options. As required by the RTC Completion Act, we are reviewing RTC's valuation of loans offered through this program and will report on the results of our review later in 1995.

Additional Details on Actions Taken by RTC to Implement Reforms Involving Its Contracting and Related MWOB Activities

Reform 6: Basic Ordering Agreements [Sec. 21A(w)(6)]

Requirements of the Reform: This reform included the following requirements: (1) RTC is required to revise the procedure for reviewing and qualifying applicants for eligibility for future basic ordering agreements to ensure that small businesses, minorities, and women are not inadvertently excluded from eligibility for such agreements and (2) to ensure maximum participation by MWOBS, RTC shall review all lists of eligible contractors and prescribe regulations and procedures.

Status

Action taken/monitoring required.

Description of RTC Actions

In May 1994, RTC issued a policy memorandum to all Minority and Women's Program Directors that is designed to ensure a full and thorough review of source lists for prospective RTC contract solicitations. RTC has also included these requirements in the CPPM revision 7, dated May 16, 1994. In addition, on February 8, 1995, RTC published in the Federal Register its final rule entitled Minority- and Women-Owned Business and Law Firm Program that, among other things, defines procedures for ensuring that MWOBS and MWOLFS are not excluded from eligibility for task orders and other contracting activities. Although the issuance of these documents fulfills the requirements of the reform, RTC plans to monitor contracting activities to ensure that the procedures are fully implemented on any new contracts awarded.

Reform 7: Improvement of Contracting Systems and Contractor Oversight [Sec. 21A(w)(7)]

Requirements of the Reform: This reform requires RTC to (1) maintain procedures and uniform standards for entering into contracts with private contractors, and for overseeing contractors' and subcontractors' performance and their compliance with the terms of the contracts and applicable regulations, orders, policies, and guidelines, so that RTC's operations are carried out in as efficient and economical a manner as practicable; (2) commit sufficient resources, including personnel, to contract oversight and the enforcement of all laws, regulations, orders, policies, and standards applicable to RTC contracts; and (3) maintain uniform procurement guidelines for basic goods and administrative services to prevent the acquisition of such goods and services at widely different prices.

Status

Action taken/monitoring required.

Description of RTC Actions

Before the RTC Completion Act became law, RTC had already issued the CPPM to provide uniform standards and procedures that RTC staff must follow in awarding all RTC contracts for other than legal services. Also, RTC had committed additional resources to contractor oversight. In May 1993, the RTC Executive Committee approved 214 additional positions for contracting issues. These positions were added to provide greater emphasis on contracting, contractor oversight, internal controls, and other related functions to implement Secretary Bentsen's 9-point plan for RTC.

Concerning uniform standards for the oversight of RTC contractors and subcontractors, chapter 10 of the CPPM provides detailed requirements for RTC contractor oversight. At the time the contract is awarded, RTC staff are required to complete a contract administration plan to ensure that they have a common understanding of both RTC's and the contractor's obligations under the contract. Also, a June 1993 reorganization of RTC's contracting program placed additional emphasis on contract oversight issues. For subcontractor oversight, RTC has always required that its contractors, not RTC employees, monitor the work of subcontractors. According to RTC contracting officials, if subcontracting is a significant portion of a contract, plans for monitoring the subcontractors should be included in the contract administration plan. RTC officials told us that they believed the act did not require a revision to its subcontractor oversight policy.

In February 1994, RTC's Office of General Counsel developed a program for warranting Legal Division employees to execute contracts for legal services and take related actions on behalf of RTC. The goal of the program is to promote quality performance and effective contracting by establishing uniform procedures and minimum standards for certification, maintenance, and termination of warrants issued to "Legal Officers." In the February 7, 1994, Federal Register, RTC notified the public that only legal officers who are issued a warrant can execute contracts for legal services on behalf of RTC.

In April 1994, RTC issued procedures to implement our recommendation that SAMDA contractors be required to regularly report on steps taken to oversee their subcontractors. In our interim report, we observed that by ensuring the full implementation of these procedures, RTC could help reduce the vulnerability of its property management subcontractors to potential fraud, waste, and mismanagement.

RTC has issued some additional procedures for the oversight of property management subcontractors and plans to continue reviewing its contractor oversight activities to identify areas for improvement. In addition, because many of its contracts are being completed, RTC has increased its focus on another aspect of contract administration—contract closing.

After the terms of a contract have been accomplished, it needs to be closed out. To do so, contracting officers are required by RTC's CPPM to determine, among other things, that (1) all deliverables, including reports, have been received by RTC and accepted; (2) final payment has been made to the contractor; (3) all collections of funds due to RTC have been completed; (4) all financial documents are in the file; (5) all RTC property has been returned and accounted for; and (6) all RTC files have been returned. According to RTC estimates, at least 12,000 prime contracts issued before December 31, 1992, with estimated fees of about $2.8 billion, still need to be closed.

In April 1994, we discussed this matter with RTC officials who agreed that to help protect RTC's interests, the contract close-out process should be done as soon as possible after contract completion. Subsequently, RTC stepped up its actions to ensure that contracts are closed. In June 1994, RTC revised its contracting information system to include additional information about contract closings. Further, the RTC Office of Contracts and OCOS established a joint program to identify whether certain contracts with fees in excess of $500,000 should be audited. During its last year of operation, RTC plans to continue its efforts to ensure that all contracts are properly closed. Further, to the extent that contracts remain open at RTC's termination, RTC is working to help ensure that FDIC will be prepared to complete this important task.

In addition, to prevent the acquisition of basic goods and administrative services at widely different prices, RTC issued an interim policy revision to its CPPM on October 7, 1994. The revision defines goods and administrative services as including—but not limited to—the purchase of furniture, fixtures, and equipment; publishing and printing; computer equipment and services; and day-to-day services, such as the procurement of supplies and the employment of security guards. The revision is applicable to all purchases of goods and administrative services with fees greater than $100,000. Under this revision, the contracting officer is to develop a written price history for procurements of similar services. If the proposed contract price is within 10 percent of the price history for similar services, the proposed contract price would satisfy the requirement of the CPPM. This change was formally incorporated into revision 8 to the CPPM, which was issued on February 15, 1995.

Reform 15: Minority- and Women-Owned Businesses Contract Parity Guidelines [Sec. 21A(w)(15)]

Requirements of the Reform: This reform requires RTC to establish guidelines for achieving the goal of a reasonably even distribution of contracts awarded to various MWOB and MWOLF subgroups whose total number of certified contractors comprise not less than 5 percent of all MWOB and MWOLF certified contractors. These guidelines may reflect the regional and local geographic distributions of minority subgroups. The distribution of contracts should not be accomplished at the expense of any eligible MWOB or MWOLF in any subgroup that falls below the 5-percent threshold in any region or locality.

Status

Work in progress.

Description of RTC Actions

As discussed in our interim report, RTC planned to issue written guidelines that were designed to establish procedures for ensuring that a reasonably even distribution of contracts and commensurate fees are awarded to each minority subgroup. In developing the guidelines, an analysis of the level of contracting activity to MWOBs and MWOLFs by subgroups for each field office was completed in February 1994. This analysis included the identification and assessment of the ethnic and gender representation among the MWOB and MWOLF contractors and the actual level of contract awards to each group on a region-by-region basis. Headquarters is to provide ongoing technical assistance to the field offices in their efforts to increase participation levels in any subgroup where the distribution of contracts falls below the 5-percent threshold within any region. Initially, RTC had planned to issue these guidelines by the end of July 1994.

Although final written guidelines have not yet been issued to the field offices, in November 1994, RTC headquarters provided draft guidelines to these offices. The draft guidelines were intended to provide RTC field offices with information on how they should be working to achieve parity in their contracting activities. RTC's objectives are to ensure that the number of contracts awarded and the amount of fees paid to minority subgroups equals the subgroups' percentage of representation in RTC's national certified database.

RTC agrees that although draft guidelines for achieving contract parity have been provided to RTC field offices, the status of this reform should remain work in progress until the guidelines have been finalized. According to an RTC official, the guidelines were not issued in July 1994 as initially planned mainly because work was still being done to issue the final rule on Minority- and Women-Owned Business and Law Firm Program that would implement reforms 6, 16, and 18. Since the final rule was published on February 8, 1995, RTC is preparing the contract parity guidelines, which are scheduled to be issued by the end of March 1995. After the guidelines have been finalized and distributed to RTC field offices, RTC plans to monitor contracts awarded and fees paid to ensure that the guidelines are fully implemented.

Reform 16: Contract Sanctions for Failure to Comply With Subcontract and Joint Venture Requirements [Sec. 21A(w)(16)]

Requirements of the Reform: This reform requires RTC to prescribe regulations that provide sanctions, including contract penalties and suspensions, for violations by contractors of requirements relating to subcontractors and joint ventures.

Status

Action taken/monitoring required.

Description of RTC Actions

RTC developed specific sanctions for violations of MWOB and MWOLF subcontracting and joint venture requirements that were incorporated in the final rule entitled Minority- and Women-Owned Business and Law Firm Program published in the Federal Register on February 8, 1995. These sanctions, which include contract termination, suspension, or exclusion from the RTC contracting program, have been incorporated in the CPPM. In addition, RTC officials told us that all standard contract agreements have been modified to include these sanctions. RTC plans to monitor contractor performance to ensure that the sanctions are imposed when appropriate.

Reform 18: Subcontracts With MWOBs [Sec. 21A(w)(18)]

Requirements of the Reform: This reform includes the following requirements: (1) RTC is to establish reasonable goals for contractors to subcontract with MWOBS and MWOLFS, and (2) with certain exceptions, RTC may not contract for services, including legal services, under which the contractor would receive fees or other compensation equal to or greater than $500,000, unless RTC requires the contractor to subcontract with MWOBS and MWOLFS and pay fees or other compensation to the subcontractor in an amount commensurate with the amount of services it provided.

This reform allows RTC to exclude a contract from these requirements if the CEO determines in writing that the subcontracting requirement would substantially increase the cost of contract performance or undermine the contractor's ability to perform its obligations. The reform also permitted RTC to grant waivers of these requirements to contractors who certify that no eligible MWOBs are available to enter into subcontracts and provide an explanation for the basis of such a determination. Also, any granting of such a waiver shall be made in writing by RTC's CEO. Finally, the reform required RTC to report to Congress a description of such exceptions and waivers granted during each quarter.

Status

Action taken/monitoring required.

Description of RTC Actions

On February 8, 1995, RTC published in the Federal Register its final rule entitled Minority- and Women-Owned Business and Law Firm Program, which established required MWOB and MWOLF subcontracting goals. Specifically, RTC required that for all contracts with fees of $500,000 or more, MWOB/MWOLF subcontracting be 10 percent for non-MWOB/MWOLF contractors and joint ventures with less than 50-percent MWOB/MWOLF participation, and 5 percent for MWOB/MWOLF firms or joint ventures with more than 50-percent MWOB/MWOLF participation. Although the required subcontracting goals have been established, RTC plans to monitor the awarded contracts to ensure that the goals are achieved.

Reform 19: Contracting Procedures [Sec. 21A(w)(19)]

Requirements of the Reform: This reform requires that: (1) in awarding any contract subject to the competitive bidding process, RTC is to apply competitive bidding procedures that are no less stringent than those in effect on the date of the enactment of the RTC Completion Act and (2) nothing in this act, or any other provision of law, shall supersede RTC's primary duty of minimizing costs to the taxpayer and maximizing the total return to the government.

Status

Action taken/monitoring required.

Description of RTC Actions

At the time of our interim report, RTC had taken preliminary action to implement the first of the two sections of this reform. After the act became law, RTC revised the CPPM to incorporate the reform's competitive bidding procedures requirement as a policy. RTC officials said that revision 7 of RTC's CPPM was carefully reviewed to ensure compliance with this reform.

They also said that as contracting policies are updated, headquarters staff will ensure that RTC is in compliance with the requirement.

In February 1995, RTC issued revision 8 to its CPPM, which included the second section of the reform requiring that no provision of the RTC Completion Act or any other provision of law would supersede RTC's primary duty of minimizing costs to the taxpayer and maximizing the total return to the government. Also, RTC's Director of Contracting Policy and Major Dispute Resolution stated that he has emphasized compliance with this requirement during 1994 training sessions for RTC contracting staff. The Director of RTC's Office of Contracts is responsible for ensuring that all future contracting policies and procedures comply with the reform's requirements. RTC plans to monitor the implementation of this reform through the Office of the Vice President for Contracts, Oversight and Evaluation.

Reform 20: Management of Legal Services [Sec. 21A(w)(20)]

Requirements of the Reform: Under this reform, to improve the management of legal services, RTC is required to utilize staff counsel when such utilization would provide the same level of quality in legal services as the use of outside counsel at the same or a lower estimated cost. Also, RTC may only employ outside counsel (1) if the use of outside counsel would provide the most practicable, efficient, and cost effective resolution to the action and (2) under a negotiated fee, contingent fee, or competitively bid fee agreement.

Status

Action taken/monitoring required.

Description of RTC Actions

RTC has taken the actions necessary for achieving this reform. It has developed a policy and procedures for the selection and engagement of outside counsel and issued guidelines for determining whether the engagement of outside counsel for particular matters is warranted under the requirements of the RTC Completion Act. However, as workload and staffing levels change, RTC plans to closely monitor the effects of its changes to policy and procedures to ensure that it continues to seek the most practicable, efficient, and cost-effective resolution to legal matters.

On July 8, 1994, RTC's General Counsel issued a memorandum distributing the newly-developed Policy and Procedures for the Selection and Engagement of Outside Counsel. The General Counsel said in that memorandum that the new guidance was effective for all new engagements, modifications, and terminations after July 8, 1994. The policy statement states that the Division of Legal Services will use its in-house staff when it can to provide the same level of quality legal services that outside counsel would provide at the same or a lower estimated cost. Further, it adds that the Division will only employ outside counsel when such use provides the most practicable, efficient, and cost-effective alternative. The accompanying procedures require that engagements of outside counsel be based upon a determination that each of the elements of practicability, efficiency, and cost effectiveness will be met, and that the oversight attorney for each engagement document the reasons for the engagement of outside counsel. Some RTC officials expressed their belief that the current policies and procedures have resulted in a decrease in RTC's use of outside counsel, with RTC's in-house attorneys doing more of the legal work related to matters such as bankruptcies.

The July 1994 policy statement further states that RTC's Division of Legal Services will only employ outside counsel under a negotiated, contingent, or competitively bid fee arrangement. The new procedures permit four selection methods for engaging outside counsel and provide guidance on when each of the four methods should be used. The procedures also describe the contracting authorities and responsibilities of various levels of RTC Legal Division officials and of the Legal Services Committees that must approve legal contracting decisions in each RTC office.

On August 26, 1994, RTC's General Counsel issued Guidelines for the Handling of Matters Within RTC's Legal Division and the Engagement of Outside Counsel, which are meant to be used in conjunction with the July 8, 1994, policy and procedures. These guidelines describe eight general factors, including availability of staff resources, to be considered in determining whether particular matters should be handled by attorneys within the Legal Division (in-house) or referred to outside counsel. In addition, the guidelines recognize that other factors may be relevant to determining whether the use of RTC attorneys or the engagement of outside counsel will provide the most practicable, efficient, and cost-effective resolution of a matter.

The August 26, 1994, guidelines also contain a listing of several categories of matters that "should generally be handled in-house unless the caseload and staffing considerations in a particular office mitigate to the contrary." The guidelines caution that because workload and staffing levels will vary in each RTC office, senior legal management in each office will have to reassess, from time to time, the practicality of handling, or continuing to handle, certain types of matters in-house. The guidelines also direct the senior legal management in each office to "seek to identify regularly additional categories of matters appropriate for in-house handling," and they require that senior legal management monitor compliance with the guidelines with respect to documenting the reasons for hiring outside counsel.

Also, RTC has established a legal services contracting officer warrant program. This program is discussed under reform 7.

Additional Details on Actions Taken by the Thrift Depositor Protection Oversight Board to Implement Its Reform

Reform 8: Audit Committee [Sec. 21A(w)(8)]

Requirements of the Reform: This reform requires the Oversight Board to establish and maintain an audit committee whose duties include (1) monitoring RTC's internal controls; (2) monitoring the audit findings and recommendations of RTC's IG, the Comptroller General of the United States, and RTC's response to the findings and recommendations; (3) maintaining a close working relationship with RTC's IG and the Comptroller General; (4) regularly reporting any of its findings and recommendations to RTC and the Oversight Board; and (5) monitoring RTC's financial operations and reporting any incipient problem identified to RTC and the Oversight Board.

Status

Action taken/monitoring required.

Description of RTC Actions

The Oversight Board established the audit committee on September 20, 1994. Three members have been appointed to the committee. On November 10, 1994, the Oversight Board adopted a charter for the audit committee that defined its duties and responsibilities. The committee has the following duties:

- monitor RTC's internal controls;
- monitor the audit findings and recommendations of RTC's IG and GAO, as well as RTC's responses to the findings and recommendations;
- maintain a close working relationship with the IG and the Comptroller General;
- regularly report findings and recommendations to RTC and the Oversight Board;
- monitor RTC's financial operations and report any incipient problems identified to RTC and the Oversight Board; and
- meet at least quarterly.

Since the establishment of its charter, the audit committee has held two meetings, one in November 1994 and one in January 1995. At the November meeting, the chairman identified three areas for priority attention by the committee: (1) ensuring that RTC and the IG continue to have an active audit program; (2) reviewing transition issues, such as asset valuation, staffing, and reserves; and (3) evaluating RTC procedures as they are changed during RTC's final year of operation.

List of Open GAO Recommendations Made to RTC, as of January 23, 1995

Corrective Actions in Process (Twenty-Three Recommendations)

Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue Professional Liability Claims (GAO/T-GGD-92-42, June 2, 1992).

- FDIC and RTC should work together to plan for the future of the professional liability program. This planning needs to address how FDIC will assume responsibility for the RTC professional liability cases.

Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105, June 28, 1993).

- Analyze and address current and future operational and staffing needs of the professional liability program.
- Keep professional liability attorneys informed of agencies' plans and decisions concerning the professional liability program to help decrease the level of uncertainty surrounding the program.

Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process Could Be Improved (GAO/GGD-93-116, July 23, 1993).

- Schedule periodic management reviews of the loan portfolio sales process to ensure that National Sales Center and field office staff are setting reserve prices based on the characteristics of the loan portfolios offered for sale.
- Schedule periodic management reviews to ensure that bid packages contain accurate and complete information about the loan portfolios being sold.
- Schedule periodic management reviews to ensure that bidding results are being provided to all investors as quickly as possible after the closing of each individual transaction without placing the transaction in jeopardy.
- Schedule periodic management reviews to ensure that investors' post-closing problems are responded to promptly.
- Schedule periodic management reviews to ensure that loan portfolio sales data are collected, summarized, and analyzed consistently and comprehensively.
- Schedule periodic management reviews to ensure that the loan portfolio sales database provides the information necessary to evaluate RTC progress in achieving program goals.

Resolution Trust Corporation: Oversight of SAMDA Property Management Contractors Needs Improvement (GAO/GGD-94-5, Nov. 30, 1993).	• Change RTC's SAMDA performance reviews by completing them more than once a year and during those reviews include specific steps focused on the SAMDA contractor's efforts to oversee their property management contractors or require the SAMDAS to regularly report on steps taken to oversee their property management contractors.
Resolution Trust Corporation: Ineffective Management of HomeFed Bank Environmental Services Contracting (GAO/GGD-94-62, Dec. 28, 1993).	• Reemphasize the importance of supervision and assessment of staff performance and ensure that the internal control supervision standard is followed. • Require that sufficient staff are assigned to manage and administer contracts and ensure management continuity throughout the full term of contracts.
Financial Audit: Resolution Trust Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-148, June 27, 1994).	• Direct the Corporation staff to monitor implementation and progress of the corrective actions related to the weaknesses we identified in general controls over some of the Corporation's computerized information systems, posting securitization-related wire receipts, and reconciliations of receiverships' asset balances to detailed asset records.
Resolution Trust Corporation: Better Analyses Needed Before Terminating Asset Management Contracts (GAO/GGD-94-147, July 8, 1994).	• Require SAMDA contract oversight managers to work with the SAMDA contractors to help them prepare, summarize, and reconcile their asset activity records before the final OCOS reviews.
Management Letter to RTC's CFO (GAO/AIMD-94-181ML, Aug. 30, 1994).	• Periodically review the subrogated claims receivable balances to identify situations in which actual recoveries exceed the recorded receivable balances prior to receipt of the final dividend. In these situations, we suggest that the Corporation immediately record the interest income for the excess recoveries. • Monitor the logs prepared by the field offices to ensure that they are submitted to the Corporate Accounting Unit in a timely manner and

contain all the information needed for the reconciliation process for account 060109, Non-cash Recoveries on Subrogated Claims.
- Temporarily reopen the general ledgers for the terminated receiverships and correct misclassifications.
- Establish procedures to require that all general ledger adjustments identified during the monthly reconciliation process be forwarded to the Financial Reporting Unit to ensure that all adjustments are considered in preparing the financial statements.

Failed Financial Institutions: RTC/FDIC Risk Fraud and Mismanagement by Employing Those Deemed Culpable (GAO/OSI-95-1, Oct. 3, 1994).

- Perform employment screening before hiring individuals and routinely do so for current employees, using reliable databases of individuals found responsible for institution failures.
- Develop reliable databases that will effectively identify individuals found culpable in institution failures.
- Share information systematically, enabling each (RTC and FDIC) to be aware of those individuals the other has found culpable in the failure of federally insured institutions.
- Ensure that personnel guidance is clear and appropriate regarding employees and prospective employees for whom the Corporation has made culpability determinations.
- Ensure that conservatorship employees who occupy positions with responsibilities for asset disposition—such as those performing loan workout functions—be included in the employment screening process.

Management Agreement Not Reached (Nine Recommendations)

Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs (GAO/GGD-93-2, Oct. 7, 1992).

- Ensure that adequate management controls are maintained over SAMDA contracts, particularly in view of the widespread asset and subcontractor locations that exist now.

Resolution Trust Corporation: Analysis of Selected Asset Sales and Financial Data (GAO/GGD-94-37, Feb. 1, 1994).	• Use the results of these analyses as one of many factors to better manage assets and direct disposition efforts in order to increase net recoveries.
Resolution Trust Corporation: Affordable Housing Disposition Program Achieving Mixed Results (GAO/GGD-94-202, Sept. 28, 1994).	• Establish specific time frames for each multifamily property to comply with occupancy requirements, although an exemption should be provided when the failure to comply is caused by the law that prohibits displacing existing tenants. • Ensure that complete information on the status of occupancy requirements is maintained. • Determine if stiffer penalties are warranted to encourage property owners to comply with occupancy requirements. • Ensure that all land use restriction agreements are accounted for, executed, and recorded. • RTC/FDIC Transition Task Force consider the issues identified in report, especially the weaknesses in RTC compliance monitoring program for multifamily properties.
Resolution Trust Corporation: Better Data Could Improve Effectiveness of Nonperforming Loan Auctions (GAO/GGD-95-1, Nov. 14, 1994).	• Ensure that all loan servicing contracts require loan servicers to submit monthly loan status updates of data needed for marketing purposes to the CLD contractor. • Ensure that information provided to investors on loan data diskettes or in imaged loan files is valid, complete, well documented, and in a format that meets investors' needs.

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