



# Office of Inspector General

September 2008  
Report No. AUD-08-018

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**FDIC's Receivership Service Billing  
Process**

**AUDIT REPORT**

*Office of Audits*



**oig**



Federal Deposit Insurance Corporation

## FDIC's Receivership Service Billing Process

### Audit Results

#### Why We Did The Audit

When an FDIC-insured institution fails or is closed by a federal or state regulatory agency, the FDIC is appointed as receiver. The FDIC billed \$21 million in 2007 to 45 receiverships for work conducted on behalf of the receiverships by Corporation employees. Receivership billings reduce the cash available for dividend payments, including those to uninsured depositors and other claimants. Therefore, the FDIC's receivership service billing process is intended to ensure effective cost monitoring and that control activities are in place and observed to promote fairness in servicing operations.

The audit objective was to assess the design and implementation of controls over the FDIC's receivership service billing process. The audit focused on controls intended to ensure that receiverships are fairly and accurately billed in accordance with applicable laws and regulations.

#### Background

The Federal Deposit Insurance Act permits the FDIC to charge its receiverships all of the expenses of liquidation as are fixed by the FDIC. The FDIC adopted an implementing regulation governing administrative expenses of a receivership. Additionally, FDIC Circular 7000.5, *Billing and Cost Management Program for the Receivership Management Business Line*, identifies cost monitoring and control activities for receivership billings.

The Division of Resolutions and Receiverships (DRR) is responsible for billing receiverships for services rendered. Monthly receivership invoices are prepared by DRR's Billing and Cost Center Reporting Tool (BCCR) based on service line rates for various receivership program activities. DRR's Receivership Oversight Section acts as an advocate for the interests of the receivership, including reviewing receivership billings for reasonableness of charges. Approved invoices are submitted to the Division of Finance (DOF), which maintains the Receivership Service Billing System (RSB)—the system of record for receivership billings.

The FDIC has designed and implemented controls over the receivership service billing process to ensure that receiverships are fairly and accurately billed in accordance with applicable laws and regulations. The process for establishing the FDIC's 2008 service line rates for receivership billings was documented in rate cases approved by the FDIC's Chief Financial Officer for each service line. The six rate cases we examined were accurately calculated and fully supported.

The receivership billing process includes controls in DRR and DOF to provide reasonable assurance that receivership service billings are accurately recorded and billed to the receiverships. For example, during the first quarter of 2008, certain litigation billings did not properly transfer to the BCCR due to an account coding issue in the FDIC's time and attendance system. However, the discrepancies were identified because of the internal control procedures designed in the process. As a result, corrective action was initiated to resolve the coding issue, and DOF personnel ensured that the proper billings were entered into the RSB.

Additionally, DRR has established a performance measure to evaluate receivership billings in accordance with FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*. DRR's Receivership Oversight Section prepares a Quarterly Update report on each receivership to measure its progress. The Quarterly Update provides a detailed description of the status of the receivership operations including: financial data on the receivership expenses, estimated cash recoveries, projected and completed milestones, asset disposition, and litigation status. The Quarterly Update includes the quarterly and cumulative receivership service line expenses billed and provides a performance measure to analyze the receiverships budgeted to actual expenses.

Although adequate controls have been designed and implemented to ensure that billings by service line are reviewed, controls for ensuring that billings are reviewed for the receiverships can be strengthened. Specifically, DRR is not providing the same level of review to individual receiverships as that provided to the service lines. Such reviews, which include certification, provide added assurance that billings are reasonable. Fully documenting the receivership billing review procedures, as well as the billing review results, and certifying the Receivership Oversight Section reviews similar to the review process for service line billings would help to ensure that the FDIC thoroughly and consistently fulfills the role of advocate for the interests of the receiverships.

#### Recommendation and Management Response

We recommend that FDIC management strengthen the receivership advocacy role of the Receivership Oversight Section by:

- updating Circular 7000.5 and/or other guidance, as necessary, to clarify instructions for receivership billing reviews performed by the Receivership Oversight Section, including the frequency of reviews;
- fully documenting the review procedures performed by the Receivership Oversight Section; and
- certifying or otherwise documenting the results of reviews conducted by the Receivership Oversight Section, including the reasonableness of the charges.

Management concurred with our recommendation and is taking responsive action.

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**DATE:** September 23, 2008

**MEMORANDUM TO:** Mitchell Glassman  
Director, Division of Resolutions and Receiverships

Bret D. Edwards  
Director, Division of Finance

/Signed/  
Russell A. Rau  
Assistant Inspector General for Audits

**FROM:**

**SUBJECT:** *FDIC's Receivership Service Billing Process*  
(Report No. AUD-08-018)

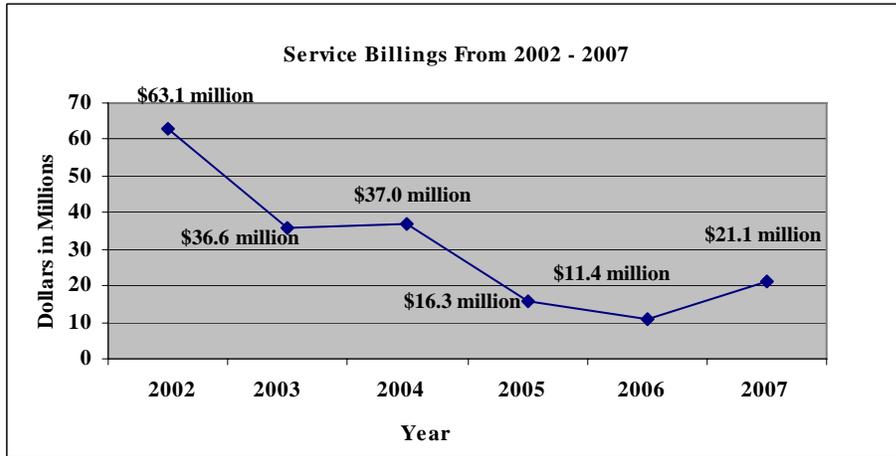
This report presents the results of the subject audit. When an FDIC-insured institution fails or is closed by a federal or state regulatory agency, the FDIC is appointed as receiver. The receivership service billing process is the method by which the Corporation bills the cost of FDIC services provided to individual receiverships. The audit objective was to assess the design and implementation of controls over the FDIC's receivership service billing process. The audit focused on controls for ensuring that receiverships are fairly and accurately billed in accordance with applicable laws and regulations. We conducted this performance audit in accordance with generally accepted government auditing standards. Appendix 1 of this report discusses our audit objective, scope, and methodology in detail.

## BACKGROUND

The FDIC's Receivership Management Program, one of the FDIC's three main business lines, includes performing the closing function of a failed institution, maintaining the value of and liquidating any remaining failed institution assets, and distributing any proceeds of the liquidation to those with approved receivership claims. The FDIC is often the largest claimant after fulfilling its obligations as deposit insurer. Receivership billings can occur for a number of years after a financial institution is closed depending on such factors as success in selling assets and the results of litigation.

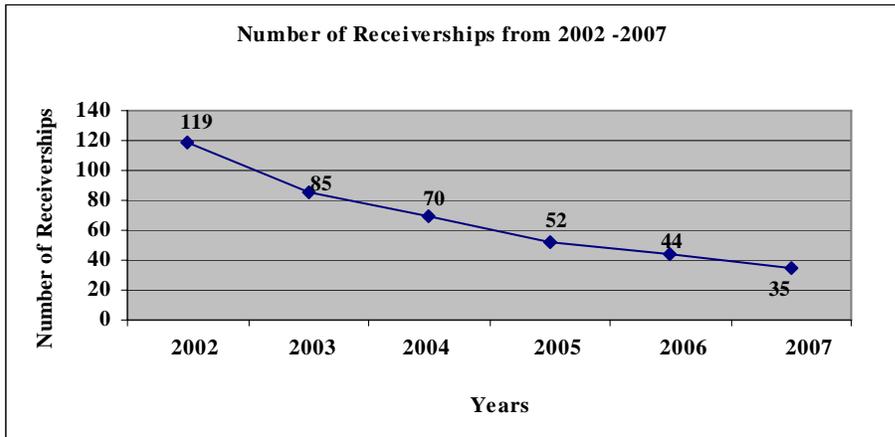
As shown in Figures 1 and 2 on the following page, receivership billings decreased from \$63.1 million in 2002 to \$21.1 million in 2007 as the number of receiverships reduced from 119 to 35. However, as of August 31, 2008, 38 receiverships were billed \$32.8 million and 10 new receiverships were established in 2008. The FDIC projects that the number of receiverships will continue to increase during the remainder of 2008. An indicator of this increase is the number of institutions that are poorly rated as a result of safety and soundness examinations. Figure 3 shows the recent increase in these institutions.

**Figure 1: Receivership Billings from 2002 - 2007**



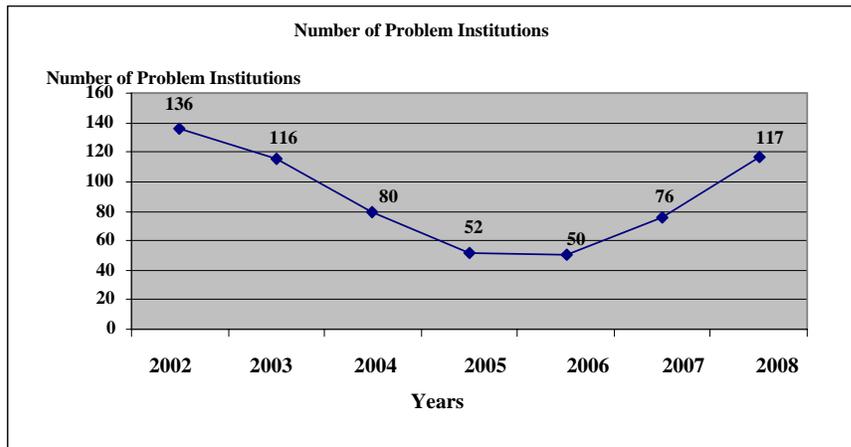
Source: OIG analysis of service billings information provided by DOF.

**Figure 2: Number of Receiverships 2002 - 2007**



Source: The FDIC's Division of Resolutions and Receiverships.

**Figure 3: Number of Problem Institutions 2002 - 2008**



Source: The FDIC's Virtual Supervisory Information on the Net System Reporting Database.

## Receivership Service Billing Process

The receivership service billing process consists of an annual rate-setting process managed by the FDIC's Division of Resolutions and Receiverships (DRR) and the monthly billings process for receiverships that involve both DRR and the FDIC's Division of Finance (DOF). DOF is responsible for the FDIC's Receivership Service Billing System (RSB), which is the system of record for receivership billings. Receivership billings reduce the cash available for dividend payments, including those to uninsured depositors and other claimants. Therefore, it is important that the FDIC establish and implement effective cost monitoring and control activities to ensure fairness and accuracy in incurring and recording the costs of receivership servicing operations.

To bill receiverships for operational expenses, the FDIC established 19 types of activities (service lines) as shown in Table 1 that represent receivership program functions performed to resolve a failed financial institution and liquidate the receivership.

**Table 1: 2007 Receivership Service Line Billings**

<b>Service Line</b>	<b>Total Billed During 2007</b>
Franchise Marketing	\$ 969,320
Valuation	128,264
Closings	5,151,869
Loan Sales	794,821
Securities Management and Sales	450,749
Owned Real Estate Sales	153,214
Other Assets Management and Sales	32,269
Subsidiaries Management	325,202
Loans Management	2,953,446
Owned Real Estate Management	210,152
Contract Oversight	31,695
Investigations	1,902,421
Asset Claims Administration	361,617
Other Receivership Claims	461,430
Receivership Oversight	556,421
Employee Benefits	222,847
Customer Service	597,000
Specialized Receivership Accounting	1,341,835
Legal Services	4,402,141
<b>Total</b>	<b>\$21,046,713</b>

Source: The RSB.

The FDIC has also established a five-digit program code in the FDIC's financial systems that represents a service line and is used to charge expenses, record costs, and measure financial performance and planned outcomes.

**Rate-Setting Process for 2008 Receivership Billings.** Billing rates are used to bill receiverships for services rendered and are established on a yearly basis for each receivership management business line service.

DRR's Billing and Cost Center (BCC) coordinates the rate-setting process with Program Code Owners and Service Line Owners. The Program Code Owner is responsible to manage the billing and cost-related matters associated with each service line. The Service Line Owner serves as the subject matter expert for a particular service line, proposes billing rates to charge receiverships fairly and accurately, and prepares supporting rate cases.

To document the rate-setting process for receivership billings, each Service Line Owner prepares a memorandum to the Director, DRR, recommending a rate for their respective service line. The Legal Division Service Line Owner prepares a memorandum to the FDIC's General Counsel, recommending rates at which receiverships should be billed for attorney and paralegal services. For 2008, the memoranda recommended a proposed rate based on analysis of the four rate options shown in Figure 4.

DRR and the Legal Division developed the 2008 service line rates based on benchmark studies and analyses performed in 2006 and 2007 by a private consultant and workload and costing data from the FDIC's New Financial Environment (NFE).<sup>1</sup> Using this data and DRR's estimate of available staff hours, the Service Line Owners calculated the unit cost and hourly rate for each receivership management program activity. The Service Line Owners then used this data to compare actual costs to both the market-based benchmark and the ABC benchmarks generated by a consulting firm. Based on an analysis of the various rate options for each service line, the Director, DRR, with the concurrence of the General Counsel and approval of the FDIC's Chief Financial Officer, determined that the DRR and Legal Division would use the Employee Hourly Rate option to bill receiverships for 2008. These hourly rates were set at \$219 for DRR employees, \$278 for attorneys, and \$99 for paralegals.

**Figure 4: 2008 Service Line Rate Options**

**Option A – Activity-Based Costing (ABC)**

ABC is a methodology, generated by a consulting firm, that is used to measure and then price all the resources used for activities that support the production and delivery of products and services to customers. This methodology maps a functional process and assigns a cost and time factor to each step in the process. The sum of these cost and time factors serves as the output for the ABC benchmark rate.

**Option B – Market-Based Benchmark**

Market-based rates are determined by identifying the cost of performing similar activities to those of the FDIC in the private sector. The market-based benchmarks presented the median cost data found and exclude high and low extremes.

**Option C – DRR Employee Hourly Rate**

The DRR hourly rate was calculated based on the adjusted full cost of DRR business programs and DRR's estimate of available hours. DRR's full cost was reduced for items that were determined not to be appropriately billed, such as information technology development and outside services billed directly to the receiverships.

**Option D – Unit Rate**

The unit rate reflects the actual cost to produce one unit of work for a particular service line. The unit rate utilizes a cost driver (i.e., number of loans sold) and uses only mission-related work to derive the rate. Mission work is defined as employee costs that are charged to a specific receivership.

Source: DRR 2008 Service Line Rate Cases.

<sup>1</sup> NFE is the FDIC's financial management system, which is managed by DOF.

**Monthly Receivership Service Billing Process and Controls.** Based on the approved 2008 service line rates, receiverships are billed on a monthly basis for the hours charged in the FDIC's Corporate Human Resources Information Time and Attendance System (CHRIS T&A) by DRR and Legal Division employees. Employees code their hours in CHRIS T&A by receivership and service line, which are then reviewed and approved by their assigned supervisor. The approved time charges electronically feed into DRR's Billing and Cost Center Reporting Tool (BCCR) and to the RSB. Preliminary invoices, by service line, are created in the BCCR and are accessible by the BCCR Administrator, Service Line Owners, Program Code Owners, and Receivership Oversight personnel.

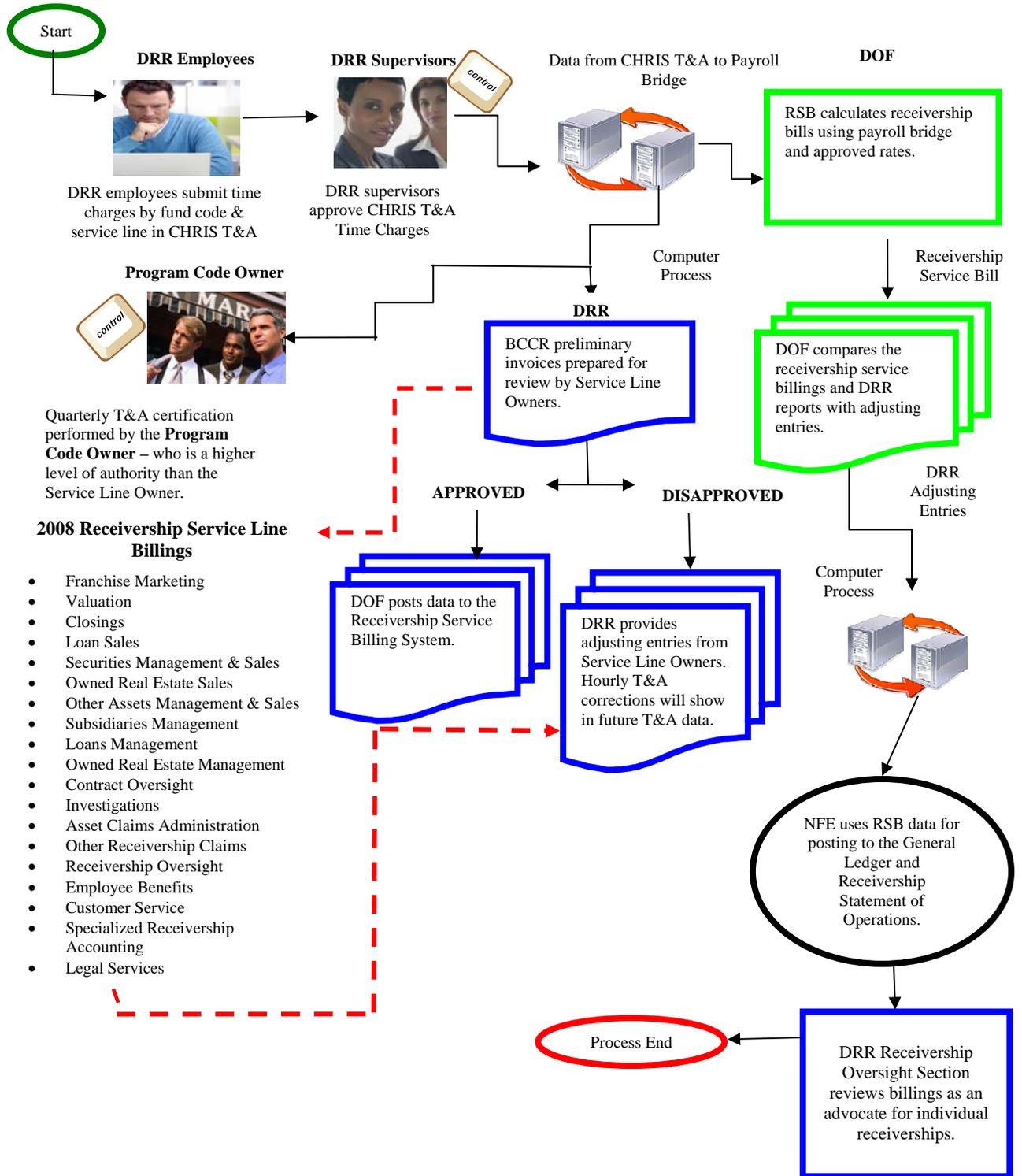
**Service Line Owner's Review.** By the 10<sup>th</sup> of each month, Service Line Owners receive an email notification from the BCCR Administrator that they should review the appropriateness of the charges billed to the respective service line. If any questionable charges are noted, the Service Line Owners should contact supervisors of employees whose charges appear questionable to verify that the charges are appropriately billed. The Service Line Owners certify the monthly charges to the BCCR Administrator and/or submit adjustments by the 15<sup>th</sup> of each month.

**Program Code Owner's Review.** On a quarterly basis, the BCCR Administrator provides each Program Code Owner with cost reports for a detailed review to ensure that costs, including employee hours are charged accurately. The Program Code Owners must certify to the BCCR Administrator that employee hours are being charged to the correct Program Code.

**Receivership Oversight Section's Review.** The DRR's Receivership Oversight Section is assigned the role of an advocate for the interests of the receivership. This role includes performing monthly reviews of service billings for reasonableness of charges, recommending billing adjustments to Service Line Owners, communicating with all Service Line Owners and the BCCR administrator on billing errors that may impact all service lines, and providing updates on the performance of receiverships, noting any billing and cost issues.

Upon completion of DRR's review, the BCCR Administrator submits the certified invoices to the RSB System Administrator in DOF. The RSB System Administrator reconciles the BCCR invoices to the information contained in the RSB to ensure the accuracy and completeness of the billings. The RSB System then automatically feeds these charges to the NFE General Ledger and the receivership Statement of Operations to bill the receiverships. Figure 5 on the next page illustrates the receivership service billing process.

**Figure 5: Receivership Service Billing Process**



Source: OIG Analysis.

## Laws and Regulations Related to Receivership Expenses

The Federal Deposit Insurance Act,<sup>2</sup> permits the FDIC to charge its receiverships all of the expenses of liquidation as are fixed by the FDIC. No specific standards regarding the manner in which expenses are to be charged are set by the Act. However, the FDIC has adopted an implementing regulation governing administrative expenses of a receivership at 12 Code of Federal Regulations (C.F.R.) §360.4,<sup>3</sup> which states that such expenses shall include obligations that the receiver determines are necessary and appropriate to facilitate the smooth and orderly liquidation or other resolution of the institution.

## Guidance and Controls Related to Receivership Service Billing

The FDIC has established policies and procedures related to controls over the receivership service billing process as described below.

FDIC Circular 4010.3. *FDIC Enterprise Risk Management Program*. The circular adopted internal control standards prescribed in the Government Accountability Office (GAO) publication, *Standards for Internal Control in the Federal Government*. The GAO standards apply to all operations (programmatic, financial, and compliance) and are intended to ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Circular 4010.3 requires management to develop and implement controls to ensure that management directives are carried out and to provide reasonable assurance that controls are sufficient to minimize exposure to waste, fraud, and mismanagement.

Key control activities related to the receivership service billing process described in Circular 4010.3 include:

- Segregation of Duties. Key duties and responsibilities shall be divided among different individuals such that no one individual should control all key aspects of a transaction to reduce the risk of error or fraud.
- Proper Execution of Transactions and Events. Transactions and other significant events shall be authorized and executed only by persons acting within the scope of their authority.
- Appropriate Documentation of Transactions and Internal Controls. Internal controls, all transactions, and other significant events shall be clearly documented. This helps to ensure that billing transactions are complete,

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<sup>2</sup> The statute, 12 United States Code §1822 (a), provides that, “all fees, compensation, and expenses of liquidation and administration shall be fixed by the Corporation, and may be paid by it out of funds coming into its possession as such receiver.”

<sup>3</sup> The regulation states that the administrative expenses of the receiver, “shall include those necessary expenses incurred by the receiver in liquidating or otherwise resolving the affairs of a failed insured depository institution. Such expenses shall include pre-failure and post-failure obligations that the receiver determines are necessary and appropriate to facilitate the smooth and orderly liquidation or other resolution of the institution.”

accurate, and recorded in a timely manner. Documentation shall be readily available for examination.

- **Performance Monitoring.** The circular requires management to perform monitoring activities to assess the quality of performance over time and the effectiveness of controls. Monitoring activities include routine management and supervisory actions; transaction comparisons and reconciliations; other actions taken in the course of normal operations; as well as separate and discrete control evaluations, including internal self-assessments and external reviews.
- **Performance Measures.** The circular requires management to establish and review performance measures and indicators. It provides that controls shall be established to monitor performance by comparing and assessing actual performance data with performance goals and analyzing significant differences between the two.

FDIC Circular 7000.5, *Billing and Cost Management Program for the Receivership Management Business Line*, dated July 11, 2006, establishes policies and procedures for the Billing and Cost Management Program for the Receivership Management Business Line. The circular provides the roles and responsibilities for establishing billing rates, the monthly receivership billing process, and controls for ensuring that effective cost monitoring and management principles are in place and observed to promote efficiency. Key controls are established for the receivership billing process, as described below:

- Service Line Owners propose billing rates to charge receiverships fairly and accurately for services provided and prepare supporting rate cases.
- The BCC:
  - Works with Service Line Owners to develop rate cases.
  - Issues preliminary monthly invoices to Service Line Owners, approves adjustments, and transmits approved billing data to DOF.
  - Serves as the central point of contact for Program Code Owners, Service Line Owners, and Receivership Oversight on all billing and cost matters.
  - Serves as the principal liaison with DOF on all billing and cost matters.
- Service Line Owners review, analyze, and approve monthly billing invoices to ensure correct charges are being made within service lines.
- The Receivership Oversight Section acts as advocate for the interests of the receivership, including the monthly review of service billings for reasonableness of charges.
- Program Code Owners certify quarterly that employee hours are being charged to the correct program code.
- Managers and supervisors are responsible for thoroughly understanding expense coding guidelines.

- Employees are responsible for utilizing the full range of program codes to properly segment expenses.

## RESULTS OF AUDIT

The FDIC has designed and implemented controls over the receivership service billing process to ensure that receiverships are fairly and accurately billed in accordance with applicable laws and regulations. The process for establishing the FDIC's 2008 service line rates was documented in rate cases approved by the FDIC's Chief Financial Officer for each service line. The six rate cases we examined were accurately calculated and fully supported.

The receivership billing process includes controls in DRR and DOF to provide reasonable assurance that receivership service billings are accurately recorded and billed to the receiverships. For example, during the first quarter of 2008, certain litigation billings did not properly transfer to the BCCR due to an account coding issue in the CHRIS T&A system. However, the discrepancies were identified because of the internal control procedures designed in the process. As a result, corrective action was initiated to resolve the coding issue, and DOF personnel ensured that the proper billings were entered into the RSB.

Additionally, DRR has established a performance measure to evaluate receivership billings in accordance with FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*. DRR's Receivership Oversight Section prepares a Quarterly Update report on each receivership to measure its progress. The Quarterly Update provides a detailed description of the status of the receivership operations including: financial data on the receivership expenses, estimated cash recoveries, projected and completed milestones, asset disposition, and litigation status. The Quarterly Update includes the quarterly and cumulative receivership service line expenses billed and provides a performance measure to analyze the receiverships budgeted to actual expenses.

Although adequate controls have been designed and implemented to ensure that billings by service line are reviewed, controls can be strengthened for ensuring that billings are reviewed for the receiverships. Specifically, DRR is not providing the same level of review for billings by receivership as that provided for billings by service line. Fully documenting the receivership billing review procedures, as well as the billing review results, and certifying the Receivership Oversight Section reviews similar to the review process of billings by service line would help to ensure the FDIC thoroughly and consistently fulfills the role of advocate for the interests of the receiverships.

## CONTROLS IN THE FDIC'S RECEIVERSHIP BILLING PROCESS

The FDIC has established controls to ensure that the receiverships are fairly and accurately billed in accordance with applicable laws and regulations. We found that the process for establishing the FDIC's 2008 service line rates was fully documented and supported in accordance with FDIC Circular 7000.5. The monthly receivership billing process includes controls in DRR and DOF to provide reasonable assurance that receivership service billings are adequately reviewed and supported and that performance measures for receivership billings have been established to monitor receivership performance.

### 2008 Service Line Rates

DRR provided the approved rate cases for each of the 19 service lines established for 2008. We selected a judgmental sample of six service line rate cases to determine whether they were accurately calculated and supported and properly approved. Each of the rate cases we examined included four rate options. For each rate option, we verified the accuracy of the calculations, whether the financial data presented in the rate case were properly presented, and whether the rate option was supported by source documentation. For example, two of the rate options relied on a methodology provided by a private consulting firm in 2006 and 2007. We traced the costs used in these options to the consultant's reports to verify that the numbers used in the 2008 rate case had been updated and followed the methodology presented in the consultants report. In addition, we verified that the cost and billing data obtained from the NFE was accurately calculated and supported by schedules obtained from DOF to calculate the hourly rates of \$219 for a DRR employee, \$278 for an attorney, and \$99 for a paralegal. Finally, we verified that all rate cases had been reviewed and approved by the FDIC's General Counsel and Chief Financial Officer.

**Figure 6: Sampled Service Line Rate Cases**

*Loans Management*

*Loan Sales*

*Closings*

*Other Receivership Claims*

*Investigations*

*Legal Services*

Source: The FDIC's 2008 Service Line Rate Cases.

### Monthly Service Billing Process

We obtained the preliminary receivership invoices from the DRR BCCR Administrator for the period January to April 2008. We compared the billings provided from DRR's BCCR to those recorded in the RSB. We found that hourly charges totaling \$1.2 million did not reconcile between the two systems. We presented these results to the RSB Administrator in DOF who provided support for each of the exceptions we noted. The RSB Administrator told us that some of these charges were related to adjustments resulting from the Service Line Owners' preliminary invoice review. However, most of the billing exceptions were due to a CHRIS T&A coding problem that the RSB Administrator had discovered during the standard monthly processing of receivership billings. As part of the control process, the RSB Administrator compares the reports he receives from the BCCR to the payroll information in the RSB. He discovered that the

data did not match for an unusually high number of records. As a result, DOF, DRR, and Legal Division personnel involved in the monthly billing process met and determined that the source of the problem was the CHRIS T&A code used by paralegals and attorneys in the Legal Division to charge their time to the Legal Services service line. The CHRIS T&A code was revised to ensure that charges for the Legal Services service line were accurately reflected in the RSB.

We selected a judgmental sample of 20 invoices from January to April 2008 to verify whether the Service Line Owners had certified the preliminary invoices for their service lines as required by Circular 7000.5. Of the 20 sample invoices, 19 had been certified within the timeframes established by DRR's BCC. The one exception was due to the Service Line Owner being out of town during the billing process. However, the invoice was subsequently approved by the Service Line Owner.

To determine whether receivership billings were in excess of the cost of services provided, we examined the billings to the Franchise Marketing Service Line that uses a market-based scale for receivership billings based on the premium paid by the acquiring bank, rather than the DRR employee hourly rate. According to Counsel in the FDIC's Legal Division, the use of a market rate is appropriate as long as it does not result in the receivership being billed in excess of the FDIC's cost to perform the services for the receivership. To ensure that the FDIC is not billing receiverships over the cost of services for franchise marketing, we compared the billings for five judgmentally selected financial institution closings to FDIC Franchise Marketing related costs. None of the Franchise Marketing billings exceeded the cost of services for the five financial institution closings we reviewed.

## **Performance Measures**

FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*, requires management to establish and review performance measures and indicators. It provides that controls shall be established to monitor performance by comparing and assessing actual performance data with performance goals and analyzing significant differences between the two. DRR's Receivership Oversight Section prepares a Quarterly Update to report on the progress of each receivership for DRR senior management. This document is intended to provide a historical record of the receivership; framework for creating, executing, and monitoring the receiverships goals and objectives; and means to measure performance. We obtained a judgmental sample of 10 receivership Quarterly Updates completed from March to June 2008 (shown in Table 2 later in this report). We verified that each Quarterly Update included receivership billing data for the quarter and the budget variance analysis to measure the receivership billings. We found each report accurately reported the receivership billings and included a budget variance for the receivership.

DRR has established and implemented controls and performance measures to ensure receiverships are fairly and accurately billed in accordance with applicable laws and regulations. However, as described below, procedures for the Receivership Oversight Section's billing review need to be fully documented to help ensure the effective

advocacy of receivership interests and protect the FDIC's reputation as the receiver for failed financial institutions.

## REVIEW PROCEDURES FOR THE RECEIVERSHIP OVERSIGHT SECTION

DRR's Receivership Oversight Section serves as an advocate for the interests of receiverships. Its mission is to foster the administration and conclusion of the affairs of all receiverships in a responsible, expedient, and cost-effective manner. Circular 7000.5 requires the Receivership Oversight Section to review monthly receivership billings for reasonableness. However, the procedures for conducting the receivership billings review have not been fully documented in accordance with FDIC Circular 4010.3. Additionally, the billing review conducted by the Receivership Oversight Section is not required to be certified, in contrast to such a requirement for the service line billing reviews conducted by the Service Line Owners and Program Code Owners. Such reviews, which include certification, provide added assurance that billings are reasonable. Fully documenting the receivership billing review procedures, as well as the billing review results, and certifying the Receivership Oversight Section reviews similar to the review process for service lines would help to ensure that the FDIC thoroughly and consistently fulfills the role of advocate for the interests of the receiverships.

### Quarterly Review

According to Receivership Oversight Section personnel, they review receivership billings on a quarterly rather than monthly basis in conjunction with their preparation of the Quarterly Update report. The Receivership Oversight Section personnel explained that it is more efficient for them to review the billings for comparison with the liquidation activity that has occurred for the receivership during the quarter. For example, to prepare the Quarterly Update report, Receivership Oversight Section personnel obtain quarterly data on assets sold for the receivership. To assess the reasonableness of receivership quarterly billings, Receivership Oversight Section personnel compare the quarterly billings to the assets sold for the receivership to determine whether the charges appear reasonable. Similar analysis is conducted for other service lines such as legal services, receivership claims, investigations, and closings. When billings appear to be excessive or unusual, the Receivership Oversight Section personnel contact the respective Service Line Owner or manager involved to determine why the charges occurred and recommend adjustments to be made, if necessary. Also, as mentioned earlier, the Quarterly Update report includes performance data on the service line billings, including a calculation of the budget variance analysis. Receivership Oversight Section personnel told us that they also use this data to evaluate the receiverships billings.

Information on the 10 Quarterly Update reports is shown in Table 2 on the following page.

**Table 2: Quarterly Update Reports Reviewed**

Receivership Name	Date of Quarterly Report	Projected Expenses to Actual Expenses Budget Variance Favorable or (Unfavorable) (millions)
Southern Pacific Bank	May 31, 2008	\$ (6.6)
NetBank	March 31, 2008	5.3
Hamilton Bank	April 30, 2008	6.7
Guaranty National Bank of Tallahassee	April 30, 2008	(2.2)
Connecticut Bank of Commerce	March 31, 2008	(12.1)
Oakwood Deposit Bank Co.	April 30, 2008	(4.4)
The First National Bank of Blanchardville	June 30, 2008	(1.9)
NextBank	March 31, 2008	6.2
Miami Valley Bank	April 30, 2008	(.6)
Metropolitan Savings Bank	April 30, 2008	\$ (1.7)

Source: DRR Receivership Quarterly Update Reports as indicated.

Although the Quarterly Updates we reviewed included an explanation for the causes of the budget variance, they did not state that the billings had been examined and were found to be reasonable or provide information on how the review was conducted and the results.

Circular 7000.5 contains a provision indicating that DRR's Receivership Oversight Section is responsible for acting as an advocate for the interests of the receivership, including the monthly review of receivership billings for reasonableness of charges; recommending billing adjustments to Service Line Owners; communicating with all Service Line Owners and the BCC on billing errors that may impact all service lines; and providing updates on the performance of receiverships, noting any billing and cost issues.

Guidance issued by DRR's BCC to Program Code Owners and Service Line Owners provided procedures for their monthly review of service line billings. These procedures include: accessing the BCCR to review hourly charges to the program and projects, ensuring that the proper coding was used, contacting supervisors of employees whose charges appear questionable, and correcting any charges immediately via the CHRIS T&A system. These procedures also provide that this review be conducted each month and require that the Service Line Owners certify that the charges are correct prior to being submitted to DOF. However, the BCC has not issued similar guidance to the Receivership Oversight Section for the review of receivership billings. As a result, the billing reviews for receiverships are not conducted on a monthly basis as prescribed by Circular 7000.5, fully documented, and certified in the same manner as the review for service line billings.

FDIC Circular 4010.3. *FDIC Enterprise Risk Management Program* requires every operating and policy area in the Corporation to have fundamental requirements, including procedures that are both current and appropriately documented. By fully documenting procedures for the Receivership Oversight Section review of receivership billings and the review results, DRR will improve controls to ensure that it thoroughly and consistently fulfills its role of advocate for the interests of the FDIC's receiverships.

## **Recommendation on Procedures for Receivership Oversight**

We recommend that the Director, DRR, strengthen the receivership advocacy role of the Receivership Oversight Section by:

- updating Circular 7000.5 and/or other guidance, as necessary, to clarify instructions for receivership billing reviews performed by the Receivership Oversight Section, including the frequency of reviews;
- fully documenting the review procedures performed by the Receivership Oversight Section; and
- certifying or otherwise documenting the results of reviews conducted by the Receivership Oversight Section, including the reasonableness of the charges.

## **CORPORATION COMMENTS AND OIG EVALUATION**

On September 16, 2008, the Director, DRR, provided a written response to the draft of this report. DOF was not required to provide a written response to the draft of this report. Management's response is presented in its entirety in Appendix 2. Management agreed with our findings and recommendation.

To address the recommendation, DRR will update Circular 7000.5 and develop a job aid that documents the review procedures performed by the Receivership Oversight Section. Circular 7000.5 will be updated to state that the receivership billing review will be performed in conjunction with the preparation of the Quarterly Update. The job aid will provide instructions on documenting and reporting the results of the review, including the reasonableness of the charges.

A summary of management's response to the recommendation is in Appendix 3. DRR's planned actions are responsive to our recommendation. The recommendation is resolved but will remain open until we determine that the agreed-to corrective actions have been completed and are responsive.

## OBJECTIVE, SCOPE, AND METHODOLOGY

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### Objective

The audit objective was to assess the design and implementation of controls over the FDIC's receivership service billing process. The audit focused on controls for ensuring that receiverships are fairly and accurately billed in accordance with applicable laws and regulations. We conducted this audit from May 2008 through July 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Scope and Methodology

To accomplish the audit objective, we became familiar with the FDIC's corporate policies and procedures applicable to the FDIC's receivership service billing process. We conducted fieldwork at FDIC headquarters locations in Arlington, Virginia, and Washington, D.C. We reviewed the following circulars, policy, and procedure documents related to the receivership service billing process:

- FDIC Circular 4010.3, entitled, *FDIC Enterprise Risk Management Program*, adopted internal control standards prescribed in the GAO publication, *Standards for Internal Control in the Federal Government*. These standards apply to all operations (programmatic, financial, and compliance) and are intended to ensure the effectiveness and efficiency of operation, reliability of financial reporting, and compliance with applicable laws and regulations.
- FDIC Circular 7000.5 entitled, *Billing and Cost Management Program for the Receivership Management Business Line*, dated July 11, 2006. The circular establishes policy and procedures for the Billing and Cost Management Program for the Receivership Management Business Line.
- DRR's *Billing & Cost Center Reporting Tool (BCCR) Administrator's Guide*, dated November 14, 2007. The intent of this guidance is to provide the background and information required to (1) import data into the BCCR as the data become available and (2) provide an understanding of general maintenance actions.
- *BCCR T&A Data Review and Certification Procedures*, which require all employees to understand thoroughly and adhere strictly to all expense coding guidelines.

- *DRR Coding Instructions*, which were provided for completing CHRIS T&A and travel vouchers for pre-failures, failures, and post-failures.

To determine whether the FDIC's process for establishing 2008 service line rates was conducted and documented in a manner to ensure that receivership billings were necessary and appropriate, we performed the following:

- Documented the approved 2008 rate case memorandum for each receivership service line and reviewed the rate case to identify critical data used to establish the proposed service line rate.
- Interviewed DRR officials responsible for the rate setting process to confirm our understanding of the process and clarify steps necessary for a full understanding of the roles and responsibilities of the Service Line Owners, sources of data used to evaluate the rate case, approval process, and other critical information deemed necessary in establishing the service line rate.
- Interviewed Service Line Owners to verify their concurrence with the rate option that was selected for their service line. Confirmed their understanding of the review of monthly service line billings.
- Obtained and reviewed service line budgeted data for the six sampled service lines, examined how the data were used in determining the approved service line rate, and verified whether the projected budgeted costs were fully recovered using the approved service line rate.
- Compared the consultant benchmark rates (market rates) with the approved service line rates. Verified that the benchmark rates were accurately described in the rate case, determined how the benchmark rates relate to the approved rate, and reviewed documentation supporting the approved rate over the benchmark rate.
- Determined whether the 2008 rate cases were prepared in accordance with FDIC and DRR directives and other established guidelines by comparing requirements of the directive to the rate case and related documentation. Reviewed procedures established for the service line rate setting process to ensure that they provide adequate guidance to those involved, to ensure that all service lines were prepared in accordance with applicable laws, regulations, and FDIC directives for billing receiverships.
- Judgmentally sampled six service lines and recalculated the supporting data for each service line rate option to ensure the rate was accurately and appropriately calculated in determining the approved service line rate. Determined whether the rate case included an accurate description of the supporting data used in evaluating which rate was most appropriate for the service line.

To determine whether adequate policies, procedures, guidelines or other instructions have been established to ensure that time charged to receiverships was accurately recorded and processed to the RSB, we interviewed the following FDIC personnel:

- DRR and DOF officials responsible for the receivership service billing process in Headquarters to ascertain the controls established for ensuring time charged to receiverships is accurately and appropriately documented and entered into the RSB.
- Service Line Owners to obtain a description of the processes they conduct during monthly reviews to ensure that their service lines are properly billed for monthly activity. Obtained the written policies, procedures, or guidelines used in conducting their review.
- DRR Receivership Oversight Section officials regarding processes to ensure receiverships are fairly billed. Determined the procedures they conducted for monthly reviews and for ensuring that the administrative expenses billed to receiverships were necessary and appropriate.

To determine whether receivership billings were supported and accurately billed, we performed the following:

- Obtained procedures documenting the monthly service line billing process. Reviewed the procedures to determine whether they provide current and complete guidance over the process.
- Obtained a listing of each of the service line invoices by service line from January to April 2008 from which we selected our random sample by numbering each invoice and using a random number generator for the invoice selection.
- Selected a sample of 20 invoices<sup>4</sup> for which we (1) verified that the correct service line rate was used, (2) recalculated amounts on the invoice, and (3) verified hours billed to CHRIS T&A time charges.
- Obtained documentation from the BCCR Administrator indicating that the invoices had been reviewed by the Service Line Owners in a timely manner.
- Obtained the Receivership Billing Reports for each service line from January – April 2008 to verify that the information on these reports corresponded to the BCCR invoices selected. If any exceptions were noted, we contacted the DOF RSB Administrator and BCCR Administrator to determine the cause for the differences.

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<sup>4</sup> The results of a non-statistical sample cannot be projected to the intended population by standard statistical methods.

- Obtained a schedule of the total billed, by service line, from 2004 to 2007 and examined the relationship of service line billings to the total number of receiverships.
- Judgmentally selected five receiverships and verified that the Franchise Marketing charges to the service line did not exceed the cost of services provided.

### **Internal Controls**

We evaluated the effectiveness of controls in place for the receivership service billing process. We flowcharted the 2008 rate setting process and identified key internal controls by assessing the sufficiency of those controls. Specifically, we reviewed evidence of supervisory review and tested the validity of information on rate options. Furthermore, we flowcharted the procedures and identified key controls for preparing monthly receivership billings. We verified key control points by assessing the processes for ensuring that service line data were properly reviewed prior to being recorded in the RSB.

### **Reliance on Computer-processed Information**

Our audit objective did not require that we separately assess the reliability of computer-processed data to support our significant findings, conclusions, and recommendations. Additionally, in performing this audit, we did not consider it necessary to evaluate the effectiveness of information systems controls in order to obtain sufficient, appropriate evidence.

### **Compliance with Laws and Regulations and Government Performance and Results Act**

We reviewed applicable laws and regulations related to the FDIC's receivership service billing process. We found no instances where the FDIC was not in compliance with applicable laws and regulations. We assessed the risk of fraud and abuse related to the audit objective in the course of evaluating audit evidence.

We reviewed DRR and DOF performance measures under the Government Performance and Results Act, Public Law 103-62. We also reviewed the FDIC's *2008 Annual Performance Plan*, the FDIC's *Strategic Plan for 2005-2010* to determine whether the FDIC has established goals related to its receivership service billing process. Neither the annual plan nor the strategic plans include goals, objectives, or indicators specifically related to the subject of our audit. However, we identified that DRR has established performance measures for reviewing receivership expenses in Quarterly Updates prepared for DRR senior management's review.

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**CORPORATION COMMENTS**

Federal Deposit Insurance Corporation  
550 17th Street NW, Washington, D.C. 20429-9990

Division of Resolutions and Receiverships

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September 16, 2008

MEMORANDUM TO: Russell A. Rau  
Assistant Inspector General for Audits

FROM: Mitchell L. Glassman  
Director

SUBJECT: Response to Draft Audit Report Entitled, *FDIC's Receivership Service Billing Process* (Assignment No. 2008-026)

This memorandum is in response to the recommendation in the subject draft audit report dated August 22, 2008.

**OIG Audit Recommendation:**

The report recommends that the Director, DRR, strengthen the receivership advocacy role of the Receivership Oversight Section by:

- updating Circular 7000.5 and/or other guidance, as necessary, to clarify instructions for receivership billing reviews performed by the Receivership Oversight Section, including the frequency of reviews;
- fully documenting the review procedures performed by the Receivership Oversight Section; and,
- certifying or otherwise documenting the results of reviews conducted by the Receivership Oversight Section, including the reasonableness of the charges.

**DRR Response: DRR agrees with the recommendation.**

To address the recommendation, DRR will update Circular 7000.5 and develop a job aid that documents the review procedures performed by the Receivership Oversight Section. The timing of the receivership billing review will be updated in Circular 7000.5 to state that it will be performed in conjunction with the preparation of the Quarterly Update. The job aid will provide instructions on documenting and reporting the results of the review, including the reasonableness of the charges. The aforementioned documents should be finalized by December 31, 2008.

cc: James Angel, Jr., OERM  
Ronald Bieker, DRR  
Gail Patelunas, DRR  
James Wigand, DRR  
Jim Seegers, DRR  
Steven Trout, DRR  
Howard Cope, DRR

## MANAGEMENT RESPONSE TO THE RECOMMENDATION

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This table presents the management response on the recommendations in our report and the status of the recommendations as of the date of report issuance.

Corrective Action for the Recommendation Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Open or Closed <sup>b</sup>
<p>DRR will update Circular 7000.5 and develop a job aid that documents the review procedures performed by the Receivership Oversight Section.</p> <p>The circular will state that the receivership billing review will be performed in conjunction with the preparation of the Quarterly Update. The job aid will provide instructions on documenting and reporting the results of the review, including the reasonableness of the charges.</p>	12/31/2008	N/A	Yes	Open

- <sup>a</sup> Resolved – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation.
- (2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation.
- (3) Management agrees to the OIG monetary benefits, or a different amount, or no (\$0) amount. Monetary benefits are considered resolved as long as management provides an amount.

<sup>b</sup> Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

**ACRONYMS USED IN THE REPORT**

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ABC	Activity-Based Costing
BCC	Billing and Cost Center
BCCR	Billing and Cost Center Reporting Tool
C.F.R.	Code of Federal Regulations
CHRIS T&A	Corporate Human Resources Information Time and Attendance System
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
GAO	Government Accountability Office
NFE	New Financial Environment
RSB	Receivership Service Billing System