



## Why We Did The Audit

FDIC management requested and the FDIC Office of Inspector General (OIG) completed an audit to determine whether costs that CB Richard Ellis, Inc. (CBRE), billed the FDIC under contract RECVR-08-G-0151, the National Owned Real Estate Management and Marketing Services Receivership Basic Ordering Agreement (ORE RBOA), were supported adequately, consistent with the terms and conditions of the contract, allowable, and reasonable.

To achieve our objective, we tested a statistically valid selection of the universe of CBRE invoices under this contract that the FDIC paid from contract inception through July 31, 2011.

## Background

The FDIC's Division of Resolutions and Receiverships (DRR) sought contractor services to assist in the acquisition, management, research and preparations for marketing, and ultimate sale of owned real estate property that the FDIC acquires as receiver of failed financial institutions. In November 2008, the FDIC executed RBOA contract RECVR-08-G-0151, effective November 14, 2008, with CBRE. The initial term of the ORE RBOA was 3 years with three options, each to extend the contract for 2 years. CBRE and the FDIC agreed in August 2011 to terminate the ORE RBOA. The FDIC's plan to transition ORE assets to other RBOA contractors was completed at the end of December 2011.

Among other things, the ORE RBOA required the contractor to

- at all times act in good faith and in the best interests of the FDIC, and use its best efforts and exercise all due care and sound business judgment in performing its duties under the RBOA;
- maintain books, records, documents, and other evidence sufficient to reflect properly all costs claimed to have been incurred in performing the contract; and
- make available records relating to the work terminated for 3 years after any resulting final settlement.

We determined that the FDIC paid CBRE \$108,319,278 (not including funding advances, which we excluded from our testing) for contract services and pass-through asset-level expense reimbursements from contract inception through July 31, 2011. The invoices comprising that amount represent our sample universe.

## Audit Results

Based on a review of a statistically valid sample of invoice line items, we determined that a preponderance of CBRE's claims paid by the FDIC from contract inception through July 31, 2011 were adequately supported, consistent with the terms and conditions of the contract, allowable, and reasonable. Of \$4,094,787 tested from 1,623 sampled claims, we found \$42,015 (1.03 percent of amounts tested) in 129 claims (7.95 percent of the number of claims tested) that were not consistent with the contract terms in the four types of invoices that we reviewed. We found the following among the four types of claims that we tested:

- **Asset Management Fees** – We tested 587 claims totaling \$538,464. We found that CBRE claimed and the FDIC paid \$6,969 (1.29 percent) in asset management fees that were not consistent with the contract terms.
- **Pass-Through Expenses** – We tested claims for 718 assets that comprised 2,283 individual bills (which is actually an indeterminately greater number because the detailed data that CBRE provides to the FDIC rolls up certain expenses that are contained on multiple bills). Claims tested totaled \$1,345,397. We found that CBRE claimed and the FDIC paid \$7,140 (0.53 percent) more than appropriate per the contract, which includes both incorrect and unsupported claims.
- **Labor and Travel Expenses** – We tested 163 claims totaling \$1,965,317. We found that CBRE claimed and the FDIC paid a net of \$30,996 (1.58 percent) that was not consistent with the contract terms, which includes both incorrect and unsupported claims.
- **Other Expenses** – We tested 69 other expense invoices (those not falling into one of the three areas above) in their entirety comprising \$245,609 in total claims. We found that, netting overcharges with undercharges, CBRE could have but did not claim \$3,090 (1.26 percent) more than the FDIC paid for other expenses.

Based on our testing a statistically valid sample of items that CBRE claimed and the FDIC paid in that period, we calculated an unbiased projection of questioned costs to be \$742,558 (0.69 percent of the sample universe). In addition, we estimated that there is a 90-percent probability that the actual amount of CBRE claims that should be questioned would not be less than \$398,227, and that the actual amount of costs not adequately supported would not be less than \$57,226. These projections reflect certain instances in which CBRE could have but did not make allowable claims.

We made three recommendations for the FDIC to disallow components of the questioned claims. We plan to report \$398,227 as total questioned costs, and report \$57,226 as unsupported costs in the OIG's next *Semiannual Report to the Congress*. The amount ultimately disallowed by the FDIC could change based on final management decisions after evaluating the findings and recommendations included in the report.

In addition, we are including a number of observations, while neither within the scope nor fully evaluated as part of this audit, regarding opportunities to enhance the economy, efficiency and effectiveness of similar existing or future FDIC contracts.

## **Management Comments**

The Directors of the Division of Administration and the Division of Resolutions and Receiverships jointly provided a written response, dated March 6, 2012, to a draft of this report. In the response, the Directors concurred with the two recommendations to disallow questioned costs that were not consistent with the contract terms, net of claims that CBRE could have but did not make, and that CBRE could not adequately support as consistent with the contract terms. Regarding the third recommendation, the Directors acknowledged that the projected questioned costs may be statistically valid, but decided not to pursue collection of projected questioned costs based on the low error rate in the sample and the probability that collection costs would exceed recoveries.

We also provided CBRE with sections of the draft report specifically involving claims reviewed and amounts questioned. In a letter to our office responding to the report, CBRE acknowledged the audit results, but requested that language in the report associated with unsupported expenses and questioned claims be clarified. Further, CBRE questioned whether statistical projections were appropriate considering the firm used prudent judgment and acted in good faith and in the best interests of the FDIC in performing its duties under the ORE RBOA. We considered CBRE's comments in finalizing our report.

Because this report includes sensitive information, we do not intend to publicly release the report in its entirety. We will, however, post this Executive Summary to our public Web site.