Office of Inspector General

Executive Summary

The FDIC's Receivership Basic Ordering Agreements for Business Process Operations Services

Report No. AUD-14-006
March 2014

Why We Did The Audit

When an insured financial institution fails, the FDIC is appointed receiver by the primary chartering authority. The FDIC, in its receivership capacity, through the Division of Resolutions and Receiverships (DRR), manages the assets of a failed bank to preserve or enhance their value and disposes of them as quickly as possible. The FDIC uses a number of information technology (IT) applications to facilitate the management, marketing, and servicing of assets, and has relied heavily on the use of contractors and failed bank staff to carry out its receivership obligations, including outsourcing Business Process Operations (BPO) services. The work covered by BPO contractors covers pre-closing, closing, and post-closing activities involved in a failed bank's closure.

On April 22, 2010, the FDIC executed Receivership Basic Ordering Agreements (RBOA) for BPO services, one to Fiserv Federal Systems, Inc. (Fiserv) (RECVR-10-G-0079) and the other to Fidelity National Information Services, Inc. (Fidelity) (RECVR-10-G-0080). As of early February 2014, the FDIC had awarded 280 Task Orders (TO) totaling $190,930,363 to Fiserv and 230 TOs for a total value of $166,862,204 to Fidelity under their respective RBOAs.

The primary objective of this audit was to determine whether payments made by the FDIC to Fiserv and Fidelity were adequately supported, allowable under the terms of the contracts, and reasonable. In addition, we performed work related to TOs awarded by the FDIC to Fiserv (TO 0071) and Fidelity (TO 0060) for implementing a toolkit called InfoSphere to be used in converting failed bank information from a bank's data processing system into the FDIC's systems. The purpose of our work was to determine whether (1) contractor tasks and deliverables were within the scope of the task order statements of work (SOW) and (2) associated billings were reasonable.

To achieve our objective, we tested simple random samples of the labor and travel cost universes under these RBOAs that the FDIC paid Fiserv and Fidelity in 2012. In regard to the InfoSphere TOs, we discussed the scope of work within the TOs with DOA and DRR officials, analyzed the two TOs, tested labor and travel transactions, and relied on the work from a separate OIG Audit, *The FDIC's Controls over Business Unit-Led Application Development Activities*, Report No. AUD-13-007, issued September 11, 2013. In addition, we performed data analyses on the labor and travel cost universes under both RBOAs for the period April 22, 2010 through February 14, 2013 to identify trends, inconsistencies, and anomalies in labor and/or travel costs billed to the FDIC.

Background

An RBOA is used to expedite the acquisition of goods and/or services in support of failing or failed institutions and is similar to a Basic Ordering Agreement (BOA) except it is limited to awards in support of DRR and is not assigned a monetary value or a contract ceiling. Rather, dollar value ceiling controls are established at the TO level, allowing DRR the ability to formulate requirements and resultant cost estimates as needs become better defined. DRR uses the RBOA vehicle for obtaining various services such as receivership assistance, loan servicing and collections, asset valuations, and BPO.

The services provided by BPO contractors Fiserv and Fidelity included but were not limited to:

- Determining the data processing environment and IT operation activities prior to closing;
- Downloading data during pre-closing activities;
- Regulating and controlling the data processing, communication systems, e-banking, wire transfers, Web sites, and other applications at bank closing;
- Converting bank general ledger data for transfer to FDIC systems;
- Coordinating with the acquiring institution to transfer operations of the bank after closing;
- Providing IT support to the FDIC;
- Providing forensic support for the investigations function; and
- Providing interim servicing for retained loans.

In addition, the FDIC awarded 13 nonbank-specific TOs to Fiserv and 12 to Fidelity under their respective RBOAs for services related to areas such as Training, 4-C System Administration, Loss Share, Job Aids, Deposit Downloads, Post-Closing Direct Support, Post-Closing Indirect Support, Large Bank Modernization, Weekly Reporting, Large Bank Simulation, and Settlement and Release of Claims.

Audit Results

DRR has established and implemented various control activities for overseeing Fiserv and Fidelity to help ensure that the contractors meet their respective performance objectives and comply with contract provisions. DRR developed and issued the *Division of Resolutions and Receiverships* C*ontract Oversight Manual* (DRR COM) to provide a daily operating guide for contract oversight staff in the performance of their contract oversight responsibilities. DRR also has a robust invoice review process, including weekly meetings with Fiserv and Fidelity to discuss labor charges and monthly meetings to discuss travel charges, to help ensure that contractor claims for labor and travel costs under the BPO RBOAs are appropriate and supportable.

To test the adequacy of these controls, we reviewed simple random samples of 280 Fiserv and Fidelity labor and travel cost charges incurred during 2012 (December 2012 travel expense information was not available at the time of our review for Fidelity). We verified labor charges against the price schedule in the contract and qualifications in contractor employee resumes. We verified travel charges against supporting travel receipts and government lodging and per diem rates. We found no exceptions. Accordingly, we can estimate with a confidence level of 95 percent that labor and travel charges incurred by Fiserv in 2012, labor charges incurred by Fidelity during 2012, and travel charges incurred by Fidelity during the period January through November 2012 were adequately supported and consistent with rates approved in the task orders with an error rate of at most 3.8 percent. As part of our testing, we also verified the contract deliverable that the FDIC received for each sampled labor charge. For certain labor charges, we had to rely on explanations provided by DRR rather than reviewing source documents. In regard to evaluating the reasonableness of charges associated with the InfoSphere TOs, 17 of the 280 charges we tested were expenses incurred while performing work under the InfoSphere TOs, and we concluded that these charges were reasonable. In addition, we judgmentally selected labor charges under the InfoSphere TOs and concluded that these charges were reasonable.

During the course of our audit, we became aware of contract actions and unanticipated funding increases that illustrate a need for greater DRR and DOA coordination when planning for program needs that will involve contractors.

Finally, in performing analyses of the labor and travel costs universes, we identified instances where contractor employees in travel status are not always using hotel tax exemption forms when incurring lodging expenses in any of the 11 states that offer the exemption for hotel occupancy taxes. We are referring this matter to DRR and DOA for further study because it may provide an opportunity to reduce contractor travel expenses in these and other FDIC contracts.

The report contains four recommendations intended to strengthen controls for monitoring the performance of BPO contractors that cover pre-closing, closing, and post-closing activities for failed banks and enhancing acquisition team coordination. In addition, we included an observation for management's attention and further study related to contractor employees using hotel occupancy tax exemption forms when incurring expenses in any of the states that offer exemptions.

Corporation Comments

On March 26, 2014, the Director, DOA, and the Director, DRR, provided a joint written response to a draft of this report. In the response, the Director, DOA, concurred with recommendations 1 and 2, which are addressed to DOA and DRR, and the Director, DRR, concurred with all four of the report's recommendations, which are addressed to DRR. The response described ongoing and planned actions to address the recommendations. DOA and DRR intend to complete planned actions by December 31, 2014.

Because this report contains sensitive information, we do not intend to make the report available to the public in its entirety. We will, however, post this Executive Summary on our public Web site.