



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-259081

November 1, 1994

The Honorable Frank R. Lautenberg
United States Senate

Dear Senator Lautenberg:

On July 11, 1994, you requested that we review the Federal Deposit Insurance Corporation's (FDIC) decision to close its South Brunswick Consolidated Office (SBCO) and transfer the office's functions to the Division's new Northeast Service Center in Hartford, CT. Our objective was to determine the basis for the decision.

This correspondence presents the information that we obtained pursuant to your request. Enclosure I describes our objective, scope, and methodology. Enclosure II discusses the background and context of the decision and the process that FDIC followed in making it. Enclosure III summarizes views that we obtained from SBCO employees regarding the decision. As agreed with your office, and because of the limited availability of documentation in support of FDIC's reorganization decisions, we did not attempt to analyze the relative merit of alternative locations for the Northeast Service Center or verify the views of SBCO employees.

SUMMARY

The decision to close SBCO and transfer its functions to a new regional service center in Hartford, CT, was part of a much broader FDIC decision to downsize and reorganize FDIC's Division of Liquidation, the organizational unit responsible for disposing of assets from failed banks.¹ This broader decision to downsize and reorganize the Division was prompted by a decline in bank failures, which reduced the Division's inventory of assets from failed banks and therefore decreased the Division's workload.

¹The Division of Liquidation was renamed the Division of Depositor and Asset Services during the September 1993 downsizing and reorganization.

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The downsizing and reorganization of the Division was headed by the Division's Director, who is one of several top executives reporting to the FDIC Chair. The Director bore the overall responsibility for planning and implementing the downsizing and reorganization of the Division. He established two task forces to advise and assist him in carrying out this responsibility.

The Director established the first task force in April 1993. The task force issued its final report in July 1993. It recommended that the Division close most of its 21 field offices and reduce its staff by half over a 3-year period from 6,600 in 1993 to 3,300 by 1996. It also proposed that the Division consolidate its field operations in five regional service centers serving different geographic areas of the country. It recommended boundaries and locations for each of the five regions and regional centers and it proposed that South Brunswick, NJ, be the site of the service center for the Northeastern Region, consisting of New York, New Jersey, Pennsylvania, Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, Puerto Rico, and the Virgin Islands.

The task force did not analyze the comparative merits of alternative locations for the service centers. We asked the members of the task force why they recommended that the Northeast Service Center be located in South Brunswick. At least one task force member gave one or more of the following reasons:

- South Brunswick was centrally located near New York City, a major banking center;
- the bulk of the Northeastern Region's population, banks, and bank assets were located in New Jersey, New York, and Pennsylvania and are easily accessible from South Brunswick;
- South Brunswick had the largest inventory of assets of any field office in the Northeast and had been in existence the longest time;
- since FDIC planned to close the Division's New York City Regional Office, relocation costs could be minimized by transferring employees to nearby South Brunswick; and
- South Brunswick had an existing pool of permanent FDIC employees.

Written documentation of the first task force's activities was incomplete. Task force members told us that some of the group's

discussions were not recorded and that some working documents were destroyed.

In August 1993, the Division Director established a second task force to make final preparations for presenting the details of the reorganization and downsizing plan to employees. He asked the second task force to reconsider the first task force's recommendation that the Northeast Service Center be located in South Brunswick, NJ. He told us that he did not ask the second task force to review the locations for the other regional service centers because he had decided to accept the locations recommended by the first task force for those centers.

Three of the second task force's six members told us that they were involved in reviewing the Northeast Service Center location; two of the three had also been members of the first task force, which recommended locating the center in South Brunswick, NJ. The Chairman of the second task force told us that he and other members discussed the location of the Northeast Service Center matter with the Division Director and Deputy Director but did not make a formal recommendation regarding the service center's location. We found no written documentation of the second task force's consideration of the Northeast Service Center's location or of its discussion of the issue with Division executives.

On September 15, 1993, the Division Director announced the details of the downsizing and reorganization plan for the Division, including the locations of five new regional service centers. His announcement stated that Hartford was selected as the site of the Northeast Service Center because "it was considered the most central and economic location to serve the needs of states . . ." in the region. The plan estimated that reductions in salaries and benefits and in office leasing costs from the entire reorganization would produce net savings of more than \$400 million during the first 4 years and \$170 million per year thereafter. The Director also announced that the functions of the Division's field offices in South Brunswick, NJ; Franklin, MA; and Westborough, MA, would be transferred to Hartford and that those offices would eventually close.

In a July 22, 1994, letter to you, FDIC said that Hartford, CT, was selected as the site for the Northeast Service Center because (1) it was the site of an existing office, (2) it was centrally located within the region, and (3) the cost-of-living there was lower than at other existing sites in the region.

We asked the Director why he had decided that the Northeast Service Center should be located in Hartford, rather than in South Brunswick as recommended by the first task force. He told us that both task forces were advisory groups that he had established to help him decide how best to downsize and reorganize the Division. He said that it was his responsibility to make the final decisions regarding the downsizing and reorganization and that he had the authority to decide whether to accept or reject recommendations of the task forces. He said that he had decided to accept most of the recommendations of the first task force but was not persuaded by their recommendation that the Northeast Service Center be located in South Brunswick, NJ. He said that all four of the Division's field offices in the Northeast would have been acceptable sites for the Northeast Service Center and that he saw no compelling factual reasons to choose South Brunswick. He said that he had therefore made a management decision based on his own judgment to locate the regional service center in Hartford, CT.

We noted that the Division did not prepare a comprehensive written record that fully documented (1) the work of the two task forces; (2) discussions among the task forces, the Division Director and Deputy Director, and the Division Policy Committee; or (3) the Director's rationale for his final decisions, including the decision to close SBCO and locate the Northeast Service Center in Hartford, CT.

The comments we received from SBCO employees generally opposed closure of SBCO and recommended South Brunswick as the best site for the Northeast Service Center. In general, employees told us that SBCO's superior performance was the main reason to keep SBCO open. However, the Division Director told us that performance was hard to measure and was not considered in the site selection process.

SBCO employees also asserted that there were differences between the Division's transition plans for SBCO and for its two field offices in Massachusetts. According to FDIC, the Division intends to merge the Westborough, MA, and Franklin, MA, offices in early 1995 and to keep the Franklin office open until the end of 1996 while it finishes its work. The Division had begun to transfer SBCO's work to Hartford and planned to close SBCO by April 30, 1995. To facilitate the transfer of SBCO's work to Hartford, the Division asked some SBCO employees to accept temporary details to work in Hartford on transferred cases. According to FDIC, the Division needed to begin the consolidation

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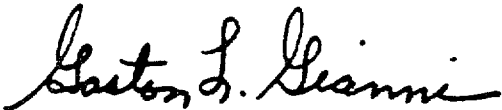
process somewhere, and waiting until the end of the transition period to begin closing field offices would not be practical.

On September 9, 1994, we briefed the Director of the Division of Depositor and Asset Services (DAS) and other senior FDIC officials on the information presented here, and they agreed that the information was accurate.

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We are sending a copy of this letter to the Director, DAS, FDIC. We will also make copies available to others upon request. If you have any questions concerning this letter, please contact me at (202) 736-0479.

Sincerely yours,

A handwritten signature in cursive script that reads "Gaston L. Gianni".

Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues

OBJECTIVE, SCOPE, AND METHODOLOGY

At your request, we reviewed the FDIC decision to close SBCO and transfer its functions to the Northeast Service Center in Hartford, CT. Our objective was to determine the basis for the decision. To achieve this objective, we obtained information on (1) the background and context of the decision and (2) the decision process followed by FDIC. To obtain this information, we interviewed the Director, DAS, and members of his headquarters staff. We also interviewed the members of two task forces established by the Division Director to help him plan and implement the downsizing and reorganization. We reviewed reports and other documents prepared by the task forces. As agreed with your office, and because of the limited availability of documentation in support of FDIC's reorganization decisions, we did not attempt to analyze the relative merit of alternative locations for the Northeast Service Center.

As agreed with your office, we also obtained the views of 33 SBCO employees on the planned closure of their office and the transfer of its functions to Hartford. We interviewed the president and shop stewards of the local chapter of the National Treasury Employees Union (NTEU) and both union and nonunion personnel who wished to comment. We also reviewed documents and written comments provided by union officials and employees. We did not seek to validate the views they expressed.

We conducted our review between July and October 1994 at FDIC headquarters in Washington, DC, and FDIC's field offices in South Brunswick, NJ, and Atlanta, GA (where some task force documents were maintained) in accordance with generally accepted government auditing standards. On September 9, 1994, we briefed the Director, DAS and other senior FDIC officials on the information presented in this correspondence, and they agreed that the information presented was accurate.

INFORMATION ON DECISION TO CLOSE SBCOBACKGROUND

In 1993, FDIC decided to downsize and reorganize its Division of Liquidation, the unit responsible for disposing of assets from failed banks.² This decision was prompted by a decline in bank failures, which reduced the Division's inventory of assets from failed banks and therefore decreased the Division's workload. The Division Director was responsible for planning and implementing the downsizing and reorganization of the Division.

On September 15, 1993, the Division Director announced the details of the downsizing and reorganization plan to employees. Part of the plan involved the elimination of most of the Division's field offices and consolidation of the remaining field operations into five regional service centers. The Director announced that the regional service center for the Northeastern Region (which would serve New Jersey, New York, Pennsylvania, Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, Puerto Rico, and the Virgin Islands) would be located in Hartford, CT. He said that the Division's other field offices in the Northeast (South Brunswick, NJ; Franklin, MA; and Westborough, MA) would eventually close and their functions would be transferred to the Northeast Service Center in Hartford.

After the reorganization plan was announced, SBCO employees requested members of the New Jersey congressional delegation to intercede with FDIC on their behalf. Members of the delegation subsequently contacted FDIC to question the decision to select Hartford as the site of the Northeast Service Center and to close SBCO. On July 11, 1994, you wrote a letter of inquiry to FDIC questioning the decision. Your letter informed FDIC that you had requested that we review the proposed move and asked FDIC to cease activities directed toward closing SBCO and constructing a new facility in Hartford until our review was completed.

FDIC's July 22, 1994, reply to you was similar to the responses FDIC had previously given to other members of the New Jersey congressional delegation. FDIC said that Hartford was selected as the site for the Northeast Service Center because (1) it was the site of an existing office, (2) it was centrally located within the region, and (3) the cost-of-living there was lower than at other sites in the region. It noted that the Division's new Office of Internal Review would be located in Jersey City,

²The Division of Liquidation was renamed the Division of Depositor and Asset Services during the September 1993 downsizing and reorganization.

NJ, and said that FDIC was committed to fair treatment of its employees during the transition and would provide outplacement assistance to affected employees. In addition, FDIC rejected your request that it defer implementation of the transfer until we completed our review.

HOW FDIC DECIDED TO CLOSE SBCO AND LOCATE THE NORTHEAST SERVICE CENTER IN HARTFORD, CT

The decision to close SBCO and to locate the Division's Northeast Service Center in Hartford, CT, was made by the Division Director. The Director is one of several top executives who report to the FDIC Chair. Under the FDIC's bylaws, the Director has broad powers, including the authority to "exercise general supervision and control over the liquidation and receivership functions of the Corporation." Pursuant to this authority, the Division Director bore the overall responsibility for planning and implementing the downsizing and reorganization of the Division. The Director established two task forces to advise and assist him in carrying out this responsibility.

The Division Director established the first task force in April 1993. The task force had seven members and was headed by an executive who subsequently became the Regional Director of the Midwest Service Center in Chicago. The task force issued its final report in July 1993. It recommended that the Division close most of its 21 field offices and reduce its staff by half over a 3-year period from 6,600 in 1993 to 3,300 by 1996. It proposed that the Division consolidate its field operations in five regional service centers serving different geographic areas of the country.

The task force recommended that the Northeastern Region consist of New York, New Jersey, Pennsylvania, Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, Puerto Rico, and the Virgin Islands. It proposed that the Northeast Service Center be located in South Brunswick, NJ. It also recommended regional boundaries and service center locations for the rest of the country. The task force presented its report to the Division's Policy Review Committee on August 10, 1993. The Committee's discussion of the report was not recorded.

We found that the task force gave at least some consideration to the following factors in recommending sites for the regional service centers: (1) projected asset base through 1994; (2) geographic, demographic, and cultural factors; (3) cost of living and relocation costs; and (4) existing and proposed staffing levels. However, we did not find evidence indicating that the task force analyzed the comparative merits of alternative locations for the service centers. Task force members told us

that some of the group's discussions were not recorded and that some working documents were destroyed.

We interviewed all of the task force members and asked them why the task force recommended that the Northeast Service Center be located in South Brunswick. At least one task force member gave one or more of the following reasons: (1) SBCO was centrally located near New York City, a major banking center; (2) the bulk of the Northeastern Region's population, banks, and bank assets were located in New Jersey, New York, and Pennsylvania and are easily accessible from South Brunswick; (3) SBCO had the largest inventory of assets of any field office in the Northeast and had been in existence the longest; (4) since FDIC planned to close the Division's New York City Regional Office, relocation costs could be minimized by transferring them to nearby South Brunswick; and (5) SBCO had an existing pool of permanent FDIC employees.

In August 1993, the Division Director established a second task force to make final preparations for presenting the details of the reorganization and downsizing plan to employees. He asked the second task force to reconsider the first task force's recommendation that the Northeast Service Center be located in South Brunswick, NJ. The Division Director told us that he did not ask the second task force to review the locations for the other regional service centers because he had decided to accept the locations recommended by the first task force.

The second task force had six members and was chaired by an executive who is now the Deputy Regional Director of the Southeast Service Center in Atlanta. Three of the six members of the second task force told us that they were not involved in reviewing the Northeast Service Center location. Of the three members of the second task force who told us they did examine this question, two had been members of the first task force, which recommended SBCO. The Chairman of the task force told us that he and other members discussed the location of the Northeast Service Center matter with the Division Director and Deputy Director but did not make a formal recommendation regarding the service center location. We found no written documentation of the second task force's consideration of the Northeast Service Center's location or of their discussion of the issue with the Division Director and Deputy Director.

On September 15, 1993, the Division Director announced the details of the downsizing and reorganization plan for the Division, including the locations of five new regional service centers. Division executives provided details of the plan to a representative of NTEU on September 14, 1993, in advance of the Director's announcement. The plan estimated that reductions in

salaries and benefits and in office leasing costs from the entire reorganization would produce net savings of more than \$400 million during the first 4 years. It assumed that offsetting expenses for staff relocations and lease buyouts would be minimal after the first 4 years and estimated that the Division would save \$170 million a year thereafter.

The Division Director announced that regional service centers would be established in Atlanta; Chicago; Dallas; Irvine, CA; and Hartford, CT. His announcement stated that Hartford was selected as the site of the Northeast Service Center because "it was considered the most central and economic location to serve the needs of states . . ." in the region. The Director announced that the functions of the Division's field offices in South Brunswick, NJ; Franklin, MA; and Westborough, MA, would be transferred to Hartford and that those offices would eventually close.

We asked the Division Director why he had decided that the Northeast Service Center should be located in Hartford, rather than in South Brunswick as recommended by the first task force. He told us that the task forces were advisory groups that he established to help him decide how best to downsize and reorganize the Division. He said that it was his responsibility to make the final decisions regarding the downsizing and reorganization and that he had the authority to decide whether to accept or reject recommendations of the task forces. He said that he had decided to accept most of the recommendations of the first task force but was not persuaded by their recommendation that the Northeast Service Center be located in South Brunswick. He said that he thought that all four of the Division's field offices in the Northeast would have been acceptable sites for the Northeast Service Center, and that he saw no compelling reasons to choose South Brunswick. He said that he had made a management decision based on his own judgment to locate the regional service center in Hartford.

The Division did not prepare a comprehensive written record that fully documented (1) the work of the two task forces; (2) discussions among the task forces, the Division Director and Deputy Director, and the Division Policy Committee; or (3) the Director's rationale for his final decisions, including the decision to close SBCO and locate the Northeast Service Center in Hartford.

EMPLOYEES' VIEWS RELATING TO CLOSURE OF SBCO
AND TRANSFER OF ITS FUNCTIONS TO HARTFORD

Thirty-three SBCO employees, including the president of the local chapter of the NTEU, provided us with oral and/or written comments on the planned closure of SBCO and the transfer of its functions to the Northeast Service Center in Hartford. These comments fell into three broad categories: (1) SBCO should remain open, (2) Hartford was not a good choice for the site of the Northeast Service Center, and (3) SBCO is not being treated the same way the Division is treating the field offices in Franklin and Westborough, MA.

Employees told us that they believed SBCO should remain open because its central location was convenient to the Northeast region's population centers, banking centers, and locations of failed bank assets and because SBCO had a pool of experienced permanent FDIC employees. The employees generally agreed that they thought the most important reason to keep SBCO open was SBCO's past performance. They told us that SBCO was a leader among FDIC's field offices in total collections, had the lowest expense-to-collection ratio of any field office, and handled some of FDIC's most complex assets.

The Division Director told us that performance was not considered in the site selection process. He said that good performance is a function of good staff rather than geographic location and that the Division could achieve good performance at any location. He said that success in disposing of assets was not necessarily the best measure of performance because it may have more to do with asset quality than with the efficiency of the disposition process.

SBCO employees criticized the choice of Hartford as the site of the Northeast Service Center on the grounds that Hartford was not located near the Northeast region's major financial markets and population centers. They argued that access to these centers by public transportation was better in South Brunswick than in Hartford.

SBCO employees also asserted that the Division had made substantial expenditures to improve the office space already under lease in South Brunswick and that locating the regional service center in Hartford would require additional expenditures for improving office space. According to FDIC, the cost of the improvements that it made in the leased SBCO facilities was about \$400,000. SBCO employees also told us that some of the leases on the Division's office space in South Brunswick will not expire until 1997 and that FDIC could be liable for lease costs unless it is able to sublease this space.

To facilitate the transfer of SBCO's functions to Hartford, FDIC has asked some SBCO employees to accept temporary details to Hartford to handle matters relating to transferred assets, investigations, and claims. SBCO employees told us that they thought it would more efficient to delay transferring SBCO's work to Hartford.

Some SBCO employees asserted that the Division was treating the two field offices in Massachusetts differently than it was treating SBCO. FDIC told us that the Division plans to merge the Westborough, MA, office with the Franklin, MA, office in February 1995 and that the Division expects to close the Franklin office at the end of 1996, after it has finished work on its inventory of assets, investigations, and claims. In contrast, the Division had begun to transfer SBCO's inventory of assets, investigations, and claims to Hartford and plans to close SBCO by April 30, 1995. According to FDIC, the Division needed to begin the consolidation process somewhere and waiting until the end of the transition period to begin closing field offices would not be practical.

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