



Offices of
Inspector
General



Joint Review of the Federal Financial Institutions Examination Council's Training Program

March 31, 1999

Conducted by
Offices of Inspector General
at the
Federal Deposit Insurance Corporation
Board of Governors of the Federal Reserve System
Department of the Treasury
National Credit Union Administration



Federal Deposit Insurance Corporation
Washington, D.C. 20434

Office of Inspector General

March 31, 1999

John D. Hawke, Jr., Chairman
Federal Financial Institutions Examination Council
c/o Office of the Comptroller of the Currency
250 E Street, SW
Washington, D.C. 20219

Dear Mr. Hawke:

The Inspectors General of the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, Department of the Treasury, and National Credit Union Administration have completed a joint review of the Federal Financial Institutions Examination Council's (FFIEC) training program. This area was selected for review because it represents a principal function of the FFIEC as specifically mandated by legislation and has not been a specific focus of any recent Inspector General audits or reviews. The purpose of the review was to determine whether: (1) the goals of the FFIEC's training program are being met, (2) the Task Force on Examiner Education (TFEE) is an efficient and effective vehicle for guiding the FFIEC's training program, and (3) the current budget process adequately serves the goals and objectives of the FFIEC's training program. The results of the review are presented in the enclosed report titled *Joint Review of the Federal Financial Institutions Examination Council's Training Program*. The FFIEC was generally receptive to our recommendations.

When Congress established the FFIEC in 1979, it directed the FFIEC to conduct schools for examiners and assistant examiners of the five member agencies, with such schools open to employees of state and foreign financial institution supervisory agencies. The context of this mandate is that such training will help the FFIEC achieve its mission of promoting consistent and vigilant supervision of depository institutions. In 1989, the Financial Institutions Reform, Recovery, and Enforcement Act directed the FFIEC to provide risk management seminars for regulators and managers of financial institutions. The FFIEC was free to decide (1) the specific goals, objectives, and magnitude of the FFIEC's training effort relative to each member agency's examiner training programs and (2) how the training activity should be organized, staffed, managed, and funded.

We found that the FFIEC has sponsored the required risk management seminars and delivered seminars and training courses attended by examiners, assistant examiners, and state

supervisory personnel. The FFIEC's program consists primarily of conferences and seminars on specialized topics that address the continuing education needs of member agency examiners. Member agencies use the FFIEC's program as a supplement to, rather than an integral part of, their own examiner education programs. The agencies spend about \$1.5 million annually for FFIEC courses in addition to an estimated \$10.7 million spent collectively on their own programs.¹

While the FFIEC is meeting its legislative mandate, we believe that there is potential for additional training activities because at the present time:

- member agencies' usage of the training program has declined significantly with only a modest decline in program staffing and cost and
- the training program continues to deliver virtually all training using the traditional conference or classroom approach even though the training program staff and TFEE members recognize that technological advances have created many alternative ways to more efficiently and effectively deliver training and increase interagency information sharing.

While we can also envision ways for the FFIEC's training program to be a more integral part of each member agency's training efforts, we are not saying that a narrowly focused FFIEC training program is inappropriate. Our concern is that the current role and approach should be based on an effective management planning process. Instead, the narrow role for the FFIEC's program appears to be the natural result of organizational arrangements and processes that support the continued desire of each agency to maintain its unique organizational culture and approach to specific examination issues. We have four recommendations to help improve management of the FFIEC's training program and thereby maximize its usefulness to the member agencies.

Recommendation 1: The FFIEC should implement a strategic planning process that clearly defines the mission, goals, objectives, performance measures, and evaluation and reporting requirements for its training program.

The TFEE and training program management have not agreed on a common mission statement and specific measurable goals and objectives on which to base budget requirements and related performance measures. Mission statements, goals, objectives, and performance measures should be the products of strategic and annual performance planning processes, which the FFIEC has not yet fully utilized. By more clearly defining the goals and objectives for the training program, the FFIEC will be better able to determine whether the FFIEC's program is fully achieving its mission and whether organization and budgeting arrangements are effective.

¹This amount is based on each member agency's estimate of the direct cost of its examiner training program. It excludes the cost of time and travel for students and instructors employed by member agencies.

Recommendation 2: The FFIEC should realign its task forces' authority and responsibilities relative to the determination of examiner training needs, course curricula, and training methodology in a manner that would increase the level of participation and input of senior officials in the member agencies who are in the "supervision and examination" functional areas.

The TFEE members' mission of ensuring a highly effective FFIEC training program can conflict with their responsibilities to manage implementation of their own agency's training programs, which serve the same examiner and supervision population. Absent a change in the makeup of the TFEE, we believe that the Task Force on Supervision and the Task Force on Consumer Compliance should have a greater role and participation in the FFIEC's processes for determining examiner training needs, course curricula, and training methodology. In part, such an arrangement would allow for greater input from member agency managers who work in the supervision and examination functional areas and oversee the users of the FFIEC's training program.

Recommendation 3: The FFIEC should ensure that the member agencies share information on new examiner training courses that a member agency is developing or on changes that are being made to an existing training course. The FFIEC should also establish the means by which it can effectively serve as a clearinghouse of training-related information to the member agencies.

A function of the FFIEC training program has been to serve as a clearinghouse of information on the member agencies' internal examiner training courses and activities. The intent of this clearance function is to avoid duplication of course development, identify areas for joint course development, and afford the member agencies the opportunity to express their respective interest in having their staff attend such courses. Although the TFEE has had a policy to share such information, it has not always been consistently followed.

Recommendation 4: The FFIEC should modify its current approach to budgeting and funding the FFIEC's training program by:

- (a) implementing a more flexible course sign-up process that provides sufficient lead time for program planning but gives member agencies a reasonable opportunity to modify attendance commitments without a penalty;**
- (b) providing training program management the authority, flexibility, and accountability to achieve program objectives while staying within approved spending levels and policy guidelines; and**
- (c) establishing cost sharing arrangements that encourage use of the FFIEC's training program and allow agencies to predict their share of program costs.**

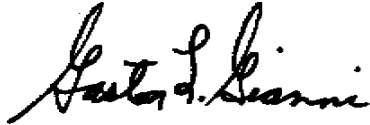
The training program may benefit from a more flexible approach to course scheduling, budgeting, and cost sharing. The current method of linking the budget and cost sharing to a planned annual course schedule has, on the positive side, curtailed growth in training program cost, aided the scheduling of facilities and instructors, and generally allowed member agencies to predict and control their share of program costs. However, we found that the approach has discouraged, or at least did little to encourage, member agency use of the FFIEC's program and has reduced effectiveness of the budget process as a tool for ensuring that the program is operating efficiently and effectively. We also believe that a more flexible approach is warranted because FFIEC courses are not mandatory, and current arrangements can impede the training program's ability to be responsive to user requirements.

We discussed the report contents and recommendations with representatives of the FFIEC member agencies and staff who expressed general agreement with the recommendations. They asked us to include some additional information related to issues and options that senior FFIEC officials could consider when addressing the implementation of the recommendations. This discussion appears after each recommendation. The essence of these considerations is that the senior FFIEC officials will need to determine the size, scope, and organization of the training program based on the interrelationship with their own agencies' training programs while at the same time fulfilling the legislative requirements for the FFIEC. Additionally, the future direction of the FFIEC's training program will be affected by the strategic plans related to the FFIEC's other functions and responsibilities because the training program is fundamentally a support rather than a lead activity.

On March 22, 1999, the Executive Secretary provided formal written comments on the draft of this report on behalf of the Council (See Appendix A). The response states that the Council was generally receptive to our recommendations and that the Council had charged one of its members, the TFEE Chair, and the Executive Secretary to develop a recommended course of action for discussion at its next meeting. The Executive Secretary also indicated that the implementation process could be greatly enhanced with continued assistance and guidance from the interagency OIGs. When asked, we intend to provide appropriate assistance to the FFIEC. The FDIC Office of Inspector General, as the lead agency on this audit, will periodically monitor the status of the recommended actions.

We appreciate the cooperation and courtesies extended to the staff during this review. Should there be any questions pertaining to the review, please call any one of us.


Sincerely,



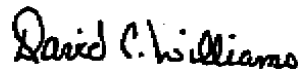
Gaston L. Gianni, Jr.
Inspector General
Federal Deposit Insurance Corporation
202-416-2026



Barry R. Snyder
Inspector General
Board of Governors of the
Federal Reserve
202-973-5003



H. Frank Thomas
Inspector General
National Credit Union Administration
703-518-6350



David C. Williams
Inspector General
Department of the Treasury
202-622-1090

Enclosure

cc: Governor Laurence H. Meyer, Board of Governors of the Federal Reserve System
Chairman Donna A. Tanoue, Federal Deposit Insurance Corporation
Chairman Norman E. D'Amours, National Credit Union Administration
Director Ellen Seidman, Office of Thrift Supervision
Executive Secretary Keith J. Todd, FFIEC

JOINT REVIEW OF THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL'S TRAINING PROGRAM

TABLE OF CONTENTS

	<u>PAGE</u>
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	5
SUMMARY OF RESULTS	6
OBSERVATIONS, RECOMMENDATIONS, AND IMPLEMENTATION CONSIDERATIONS	7
• FFIEC's Training Mission, Strategic Goals, and Objectives Need To Be Clearly Defined and Measurable	7
• Realignments Are Needed in the Roles and Responsibilities of the Task Forces	12
• Greater Flexibility Needed in Scheduling, Budgeting, and Funding Processes	16
FFIEC COMMENTS AND OIG EVALUATION	22
APPENDICES	
FFIEC Response to Draft Report	A
FFIEC Organization Chart	B
FFIEC Summary of Examiner Training (1990-1998)	C
Major Contributors to the Review of FFIEC's Training Program	D

BACKGROUND

FFIEC Mission and Responsibilities

The Federal Financial Institutions Examination Council (FFIEC) was established on March 10, 1979 pursuant to Title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (Public Law 95-630). The FFIEC is a formal interagency body consisting of five financial regulatory agencies empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by its member agencies. The member agencies consist of the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).¹ The overall intent of the legislation was to promote consistency in federal examinations and progressive and vigilant supervision. Additional responsibilities imposed by subsequent legislation include public access to Home Mortgage Disclosure Act (HMDA) data and monitoring the states' real estate appraisal activities through a separate Appraisal Subcommittee.

FFIEC Staffing, Operations, and Funding

Six interagency task forces consisting of representatives from each member agency provide most of the staff support in the substantive areas of concern to the FFIEC. Task force areas of responsibility include supervision, consumer compliance, examiner training, information sharing, reports, and surveillance systems. In addition, a Legal Advisory Group has been established to provide legal support and advice. The task forces and the Legal Advisory Group are responsible for the research work done by agency staff members on behalf of the FFIEC and for reports and policy recommendations prepared for consideration by the FFIEC. Also, in order to encourage the application of uniform examination principles and standards by the state and federal supervisory authorities, the FFIEC has established an Advisory State Liaison Committee composed of five representatives of state supervisory agencies. The FFIEC submits an annual report to the President of the Senate and the Speaker of the House of Representatives. Appendix B contains the current organization chart of the FFIEC.

The FFIEC has about 18 staff in its operations and training offices. All FFIEC staff, including those hired directly from outside sources, are officially employees of a member agency on a fully reimbursable detail to the FFIEC. The FRB's Management Division, provides budget, accounting, and personnel services to the FFIEC. The FFIEC is funded through semiannual assessments of its five constituent agencies for administrative costs, training expenses, and other operational expenditures. It also generates income primarily from fees for Uniform Bank Performance Reports, HMDA data, and tuition fees from nonmember agency attendees. In 1998, the FFIEC's budget contained revenue projections of \$6.0 million in assessments to member organizations and other income of which \$1.6 million is related to the training program.

¹ The Office of Thrift Supervision replaced the Federal Home Loan Bank Board on the FFIEC in 1989.

FFIEC's Training Program²

When Congress established the FFIEC in 1979, it directed the FFIEC to conduct schools for examiners and assistant examiners of the five member agencies with such schools open to employees of state and foreign financial institution supervisory agencies. The context of this mandate assumed that such training would help the FFIEC achieve its mission of promoting consistency in federal examinations and progressive and vigilant supervision of depository institutions. Except for the specific activities stated, the authorizing legislation otherwise imposed no limitations or direction on how the FFIEC should use its training activities to fulfill its mandate. Thus, the FFIEC was free to decide the specific goals, objectives, and magnitude of the FFIEC's training effort and how the training activity should be organized, staffed, managed, and funded. In 1989, the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) directed the FFIEC to also provide risk management seminars for regulators and managers of financial institutions.

To implement its training mandate, the FFIEC created the Task Force on Examiner Education (TFEE) to oversee the FFIEC's training activities and established the Training Office within the FFIEC to carry out the program. The TFEE consists of officials and staff of each member agency training function and the FFIEC's Executive Secretary, who is an ex-officio member. The task force usually meets monthly and is empowered to make nearly all decisions regarding examiner training curricula, course content, and budget. Decisions are usually by majority rule, although TFEE decisions on new courses must be unanimous, and only the FFIEC members can approve course deletions. In addition, the TFEE members serve as the Training Office's contact point for coordinating participant sign-up and for obtaining agency staff to serve as instructors or developers of FFIEC's training courses.

The FFIEC's Training Office currently consists of about 11 full-time staff members, including a manager, assistant manager, program administrators, training technicians, and support staff. The Training Office reports to the FFIEC's Executive Secretary but receives its specific direction and guidance from the TFEE. The Training Office's program administrators working with member agency staff and outside consultants develop training products. Courses are taught by member agency staff as well as outside instructors and guest speakers. The FFIEC's Training Office and classrooms are located in the FDIC's Seidman Center in Arlington, Virginia. Offices, classrooms, and lodging facilities at the Seidman Center are rented at comparable market rates from the FDIC. Although most of the training is offered at the Center, regional sessions are also conducted

Relationship of FFIEC's Training Program to Member Agency Programs

Member agencies use the FFIEC's training program as a supplement to their own training programs for examiners and assistant examiners. Agency programs include a curriculum that allows assistant examiners to obtain examiner credentials as well as special subject matter training to enhance examiner knowledge and skills. We found that minimal interagency participation occurs in each agency's own program. Table 1 shows member agency attendance and costs for their own and FFIEC's examiner training programs in relation to the number of examiners at each agency.

² The term "training program" will be used throughout the report to refer to the training activities directed by the FFIEC Training Office. Also, we will refer to the examiner education programs at the member agencies as "member agency training."

**TABLE 1: 1997 Participation In and Costs
of FFIEC and Agency Training Programs**

Agency	Examiners	FFIEC Training		Agency Training	
		Attendees	Costs (\$000)	Attendees	Costs * (\$000)
FDIC	1,765	1,803	\$590	1,313	\$4,000
FRB	1,266	1,085	\$351	3,422	\$3,950
OCC	1,872	623	\$247	1,930	\$1,440
NCUA	650	151	\$48	1,435	\$750
OTS	551	121	\$30	770	\$590
Other	N/A	548	\$234	1,189	N/A
Total	6,104	4,338	\$1,500	10,059	\$10,730

Source: Member agencies and FFIEC's Training Office.

*Agency training costs are estimated because most of the agencies do not maintain a separate account for examiner training. Instead, budgeted amounts for examiner training are included in the total training provided to all agency employees. Estimates for agency and FFIEC costs exclude the cost of time and travel for students and instructors employed by member agencies.

FFIEC's primary products are conferences and seminars where outside experts or experienced agency staff discuss topics in the areas of information systems and technology, payment system risk, trusts, emerging issues (community and multinational areas), white-collar crime, real estate lending, cyberbanking, and capital markets. These seminars are generally viewed as continuing education updates for member agency examiners and other supervisory personnel and supplements to member agencies' training classes in many of these same topics. A second FFIEC product is small group training classes that have been routinely conducted in four topics: international banking, testifying, instructor training, and, until 1998, management concepts. Except for management concepts, these topics are not explicitly mentioned in member agency programs. The FFIEC has also offered special purpose seminars to educate examiners on new regulatory requirements in areas such as community reinvestment or Year 2000 compliance. Such sessions have been used to educate key personnel who would then provide or expand upon such training within their own agencies. Other FFIEC products are the risk management conferences that have been attended annually by about 400 bankers. The FFIEC offers only one "non-classroom" product--a self-study course in basic international banking, which is not replicated in member agency self-study materials. Appendix C shows a list of FFIEC course offerings, sessions, and attendance since 1990.

Training Program Cost and Attendance Trends

The training program budget for 1998 was mostly funded by the member agencies in proportion to their enrollment commitments to planned conferences and courses. The three bank regulatory agencies -- FDIC, FRB, and OCC -- had the most participants and have borne more than 90 percent of FFIEC's training costs. The FDIC and FRB also facilitate and subsidize attendance by state bank supervisory personnel by reserving and paying for slots for state personnel and then obtaining partial reimbursement from the states according to each agency's policy. Tuition for nonmember participants ranges from \$350 for courses to \$450 for conferences.

The size and usage of the training program have declined significantly from their peak in 1995 while the total costs stayed relatively constant. In 1995, the FFIEC offered 99 seminar and course sessions with nearly 6,000 attendees, while 56 sessions were held in 1998 with almost 3,900 attendees. In 1998, the average cost per session was \$24,393, a 43 percent increase over 1995, and the average cost per participant was \$354, a 26 percent increase over 1995. Such cost increases, in part, appear to reflect a trend from smaller-sized, repetitive training courses to larger seminars and conferences that may require more staff time because course content can vary from session to session.

Table 2 contains an analysis of cost data for FFIEC's training program for the last 4 years.

TABLE 2: Cost Data for FFIEC's Training Program

	1995	1996	1997	1998	Percentage Change 1995-1998
Actual Cost (000)	\$1,683	\$1,462	\$1,501	\$1,366	-19%
Number of Class Sessions	99	72	60	56	-43%
Total Number of Students	5,971	4,736	4,298	3,863	-35%
Average Number of Students Per Session	60	66	72	69	+15%
Average Cost Per Session	\$17,000	\$20,305	\$25,017	\$24,393	+43%
Average Cost Per Student	\$282	\$309	\$349	\$354	+26%

Source: FFIEC summary of examiner training and annual performance.

NOTES: Participant and session data are for all courses offered, including Risk Management, and were derived from the training summary shown in Appendix C. Budget and cost data were obtained from the FRB Management Division's annual budget performance reports.

Prior Audits and Reviews

The FFIEC undergoes an annual financial statement audit by independent public accountants procured by the FRB's Office of Inspector General (OIG) and in 1998 received an unqualified opinion on its 1997 statements. In 1984, the U.S. General Accounting Office (GAO) performed a review to determine the FFIEC's progress in accomplishing its congressional mandates. The GAO found that the FFIEC had made limited progress in establishing uniform examination principles, standards, and report forms; made some progress in achieving uniformity in other supervisory matters and reporting systems; and been unable to develop a comprehensive training program. In 1988, the audit organizations from the member agencies conducted a joint review of FFIEC's activities. The joint review reported, in part, that management controls needed to be strengthened and that the training program required more coordination between the FFIEC and member agency training programs. Two other reports related to the FFIEC activities were issued by the FRB OIG in 1990 and 1992.

OBJECTIVES, SCOPE, AND METHODOLOGY

A joint OIG scoping survey of FFIEC functions and activities completed in February 1998 identified the FFIEC's training program as an area for review because this function is mandated by legislation and had not been the specific focus of any recent OIG audits or reviews. The objectives of our review were to determine whether: (1) the goals of the FFIEC's training program are being met, (2) the TFEE is an efficient and effective vehicle for guiding the FFIEC's training program, and (3) the current budget process adequately serves the goals and objectives of the FFIEC's training program.

As part of our work, we reviewed the FFIEC's operating procedures and minutes of FFIEC and task force meetings. We interviewed TFEE members, members of the supervision and consumers' compliance task forces, FFIEC officials and Training Office staff, and FRB Management Division staff. We examined FFIEC and task force meeting records and reports and information related to course offerings, evaluations, attendance, budget, and cost. We obtained information on the organization and funding of each member agency's examiner training program to evaluate the appropriateness of FFIEC activities and arrangements. We also analyzed and compared FFIEC course offerings to those of member agencies to determine similarities and differences in course objectives and target audience. We generally relied on the accuracy of computer produced activity and cost reports prepared by the training program, member agencies, and FRB's Management Division after verifying selected data to source documents and confirming the reasonableness of reported amounts.

As criteria for our evaluation, we applied the fundamental principles of planning, organizing, directing, and controlling, which are components of well-managed activities. Congress embodied these principles in the Government Performance and Results Act of 1993 (GPRA). This legislation was put in place to improve federal management and provide a greater focus on results. GPRA provides specific timetables whereby executive agencies were to develop multi-year strategic plans, annual performance plans, and annual reports on program performance. Although the FFIEC itself is not subject to GPRA, member agencies' officials are familiar with its concepts because each agency has implemented aspects of the strategic planning requirements. Therefore, we have used the GPRA framework to illustrate the characteristics of an effective, results-oriented management approach for the FFIEC's training program.

Our review was conducted in accordance with generally accepted government auditing standards. We conducted our review from April 1998 through January 1999.

SUMMARY OF RESULTS

The FFIEC has sponsored the required risk management seminars and delivered seminars and training courses focused, primarily, on meeting the continuing education needs of member agency examiners. Such training technically meets the legislative requirement of providing schools for examiners and assistant examiners. However, we believe that there is potential for additional training activities. We observed that:

- member agencies' usage of the training program has declined significantly with only a modest decline in program staffing and cost, and
- the training program continues to deliver virtually all training using the traditional conference or classroom approach even though the training program staff and TFEE members recognize that technological advances have created many alternative ways to more efficiently and effectively deliver training and increase interagency information sharing.

We are not saying that a narrowly focused FFIEC training program is inappropriate. Our concern is that the current role and approach should be based on an effective management planning process. Instead, the narrow role for the FFIEC's program appears to be the natural result of organizational arrangements and processes that support the continued desire of each agency to maintain its unique organizational culture and approach to specific examination issues. We observed that:

- The TFEE and training program management have not agreed on a common mission statement and specific measurable goals and objectives on which to base budget requirements and related performance measures. Mission statements, goals, objectives, and performance measures should be the products of strategic and annual performance planning processes, which the FFIEC has not yet fully utilized. By more clearly defining the goals and objectives for the training program, the FFIEC will be better able to determine whether the FFIEC's program is fully achieving its mission and whether organization and budgeting arrangements are effective.
- The TFEE members' mission of ensuring a highly effective FFIEC training program can conflict with their responsibilities to manage implementation of their own agency's training programs, which serve the same examiner and supervision population. Absent a change in the makeup of the TFEE, we believe that the Task Force on Supervision and the Task Force on Consumer Compliance should have a greater role and participation in the FFIEC's processes for determining examiner training needs, course curricula, and training methodology. In part, such an arrangement would allow for greater input from member agency managers who work in the supervision and examination functional areas and oversee the users of the FFIEC's training program.
- A function of the FFIEC training program has been to serve as a clearinghouse of information on the member agencies' internal examiner training courses and activities. The intent of this clearance function is to avoid duplication of course development, identify areas for joint course development,

and afford the member agencies the opportunity to express their respective interest in having their staff attend such courses. Although the TFEE has had a policy to share such information, it has not always been consistently followed.

- The training program may benefit from a more flexible approach to course scheduling, budgeting, and cost sharing. The current method of linking the budget and cost sharing to a planned annual course schedule has, on the positive side, curtailed growth in training program costs, aided the scheduling of facilities and instructors, and generally allowed member agencies to predict and control their share of program costs. However, we found that the approach has discouraged or at least did little to encourage member agency use of the FFIEC’s program and has reduced effectiveness of the budget process as a tool for ensuring that the program is operating efficiently and effectively. We also believe that a more flexible approach is warranted because FFIEC courses are not mandatory, and current arrangements can impede the training program’s ability to be responsive to user requirements.

We believe the recent changes in personnel at the FFIEC and the increasing application of GPRA principles within the member agencies make this a good time for the FFIEC to take a comprehensive look at the direction and management of its training program.

The following section contains a more detailed discussion of our observations and four recommendations intended to improve FFIEC management of its training program. At the request of representatives of the FFIEC member agencies, we have also provided additional information related to the issues and options that senior FFIEC officials could consider when addressing the implementation of the recommendations.

OBSERVATIONS, RECOMMENDATIONS, AND IMPLEMENTATION CONSIDERATIONS

FFIEC’S TRAINING MISSION, STRATEGIC GOALS, AND OBJECTIVES NEED TO BE CLEARLY DEFINED AND MEASURABLE

The FFIEC’s Training Office has generally produced and delivered well-received training products that comply with legislative requirements. We believe the value to FFIEC members and state bank regulatory agencies could be further enhanced with the use of appropriate direction that results from an overall strategic planning process. Such a process generally involves the development of a mission statement, general outcome-related goals, strategies for achieving these goals, specific annual goals, performance measures, and evaluation and reporting. Our review of the FFIEC’s training program’s existing “mission” and related operating issues showed that the FFIEC’s training activities operate under a set of “goals.” However, these goals are incomplete and have not been agreed to by FFIEC members and have not equipped the Training Office with specific measurable objectives related performance measures and evaluation and reporting requirements designed to determine whether the training program is accomplishing or excelling in its mission. Such basic management elements are what most federal agencies, including the five member agencies of the FFIEC, have adopted in response to GPRA.

Mission

Aspects of the FFIEC training mission are mandated under applicable legislation that requires that the FFIEC provide training to examiners and assistant examiners employed by FFIEC members. The training must also be available to employees of state and foreign bank supervisory agencies. Additionally, the FFIEC must provide instruction in risk management to its employees and the employees of insured financial institutions. The legislation is silent on all other topics related to training. It does not establish or suggest course content, curricula, (except risk management) instructional methods or scope. Consequently, the FFIEC has considerable latitude in defining its training mission, scope, content and goals. The student population has included examiners and assistant examiners from state and federal agencies. Accordingly, the FFIEC's training program complies with applicable legislation. In addition, according to data collected by the Training Office, its training products have been well received by participants. However, we believe that the value of the training program to member agencies could be enhanced with the management control and direction that results from a strategic planning process.

The following goals for the training program are printed in annual reports and course catalogues:

- Foster uniformity of training through joint sponsorship of interagency training.
- Develop and offer seminars and conferences that meet the training needs of financial institution examiners.
- Provide training opportunities for the staff of state and foreign financial institution supervisory agencies.
- Promote training efficiency by eliminating duplication where agency training needs coincide.

The first and third goals contain legislative requirements and are intended to achieve legislative compliance. The second and fourth goals are intended to meet customer needs and avoid duplication within agencies. In addition, the inclusion of the last goal to the FFIEC's training activities has been somewhat sporadic. It appears in the 1994, but not the 1995, 1996, or 1997 annual reports. It appears again in the 1998-99 FFIEC course catalogue. All of the goals could be more effective management controls if they were supported by specific action steps, performance measures, evaluation and reporting.

In July 1998, the TFEE adopted the following new set of goals:

- Promote training efficiency by encouraging consistency of training through joint sponsorship of interagency training.
- Develop, maintain and deliver timely, state-of-the-art, interagency training.
- Serve as a clearinghouse of training opportunities offered by the member agencies.
- Provide support to the initiatives of the FFIEC and its task forces.

Although these are worthwhile goals, additional steps such as action plans and performance measures are needed in order to ensure and evaluate progress toward achievement of these goals. For example, a goal to "develop maintain and deliver timely state-of-the-art examiner education" may be worthwhile; however, performance toward the goal is difficult to measure unless accountability is assigned in measurable short term goals.

Annual Performance Planning and Reporting

The process by which the FFIEC identifies examiner training needs, and develops and delivers training programs to meet those needs could be improved with a comprehensive annual planning process that includes action steps necessary to achieve strategic objectives. Substituting for an annual performance planning process at the FFIEC is the process for scheduling each year's course offerings, which is linked to the budget. Many of the people with whom we discussed this matter said the budget process has driven the training plan rather than the training plan driving the budget. (The limitations of this budget-driven approach are discussed in detail in the section "Greater Flexibility Needed in Scheduling, Budget, and Funding Processes.)

An annual performance plan should connect the long-term strategic plan to the activities planned in the coming year to move the organization toward strategic objectives. Annual plans should include specific resource needs to guide budget preparation as well as specific dates by which steps in the plan will be completed. The plan should include goals expressed in a measurable format and a description of the processes and resources required to meet performance goals. Performance indicators provide a means of comparing program results with performance goals, including measurement and validation. Additionally, an annual performance report, describing the groups' performance results compared to objectives included in the performance plan would be useful for the FFIEC to assess progress toward long-term objectives.

Strategic Planning

A determination of program success is aided by an overall strategic plan that includes a mission statement; general goals, including a list of necessary resources and processes; specific short-term goals; performance measures and reports. For example, while data summarizing training quality from the users' perspective has been collected by the Training Office and provided to the TFEE and the Executive Secretary, it has not been linked to performance objectives and has not been provided to the FFIEC Council members. Written feedback from the Executive Secretary to the Training Office has tended to focus less on training quality and more on monetary savings.

The activities of the training program and the TFEE could be more focused on goals with consistent performance-oriented feedback from FFIEC executive members. For example, the TFEE has been charged with the task of serving as a clearinghouse for agency and FFIEC training plans and opportunities. This activity involves task force members reviewing each agency's training plans and content. Training information would have sufficient scope and detail so that users would be free to select training from all providers, and trainers would benefit from the experience of other providers. The expected result would be lowered costs and elimination of the possibility that two providers would develop the same course at the same time. The TFEE approved procedures on August 17, 1989 to carry out this responsibility. While the FFIEC publishes a catalogue of training offered by the FFIEC and member agencies that includes a brief description of training courses, the TFEE has not formalized practices for the purpose of carrying out training clearinghouse responsibilities as originally envisioned. One long-time task force member said that he could not remember an instance in which the FFIEC offered a course because the task force had identified and expressed a need for training with interagency applicability. This apparently was not because multiple agency training needs did not exist. For example, in 1996 the Steering Committee on Training (Steering Committee) was formed by a joint meeting of the Task Force on Supervision and the TFEE. On April 16, 1997, the Steering Committee

delivered its report recommending that six courses be added, one revised and four dropped. These recommendations constituted as much change in training curricula as had occurred over the previous 10 years. From 1990 through 1997, the FFIEC delivered six new courses and discontinued one based on recommendations made to the task force by the Training Office.

The strategic plan is the starting point for an organization to set annual goals for programs and to measure the performance of programs in achieving those goals. It includes a summary of the resources and an analysis of the processes required to achieve long-term organizational goals. For example, if a long-term strategic objective was to produce timely, state-of-the-art training, the strategic plan would describe how examiner training needs are identified and prioritized and training products are developed and delivered.

Recommendation 1: The FFIEC should implement a strategic planning process that clearly defines the mission, goals, objectives, performance measures, and evaluation and reporting requirements for its training program.

Implementation Considerations for Developing the Training Program Strategic Direction

In our opinion, the current FFIEC's mission statements for its training program consist of four separate "goals" that largely reflect the legislative mission of the FFIEC. Although these are worthy goals, additional information related to the means for accomplishing these goals should be included in the FFIEC's strategic plan for its training program. Each member agency has developed its own strategic plan with commensurate mission, goals, objectives, performance measures, and reporting aspects. Therefore, the mechanism for developing and establishing a strategic plan for the FFIEC's training program is available through its member agencies and should involve the respective task forces, Training Office, and Executive Office of the FFIEC, as well as input from other stakeholders such as Congress, and state financial institution regulators.

Senior FFIEC officials will need to determine the size, scope, and organization of the training program based on the interrelationship with their own agencies training programs while fulfilling the legislative requirements for the FFIEC. Additionally, the future direction of the FFIEC's training program will be affected by the strategic plans related to the FFIEC's other functions and responsibilities because the training program is fundamentally a support rather than a lead activity. Below we discuss three specific questions to be considered during the planning process.

In discussing these issues we are making the following assumptions:

- Each member agency will continue to operate its own training program, although the scope and focus of such programs could change depending on how the mission and goals of the FFIEC's training program are defined.
- Interagency training need not always be conducted by the FFIEC, but can be arranged by agreements among member agencies.³

³ For example, during the early 1990s, FDIC and FRB jointly conducted certain core training for assistant examiners. We were told that such combined training was discontinued because management believed that there were too many differences in emphasis and approach to make common training appropriate.

Who are the FFIEC's training program customers and what is their relative importance?

By statute, the training program was established to serve assistant examiners and examiners of member agencies, while making such training available to state and foreign financial institution regulators. However, as mentioned in our report, the member agencies do not always use FFIEC training. Questions to consider include:

- Is it acceptable to FFIEC members that no FFIEC training program is currently targeted for assistant examiners?
- Is it acceptable to FFIEC members that two member agencies (OTS and NCUA) use the training program less than state and foreign regulatory personnel?
- Given the various types of supervisory work that complements the examiners' safety and soundness determinations, to what extent should the FFIEC training program include as its targeted customers: specialist examiners and assistant examiners, surveillance staff, reports analysts, enforcement officials, legal staff, HMDA or Call Report analysts and processors, and even staff from other federal agencies?

What are the types of products and services that the training program could provide and in which areas does the program have the ability to develop an operational advantage relative to competing providers?

The training program now focuses almost exclusively on providing on-site conferences and makes very limited use of videoconferencing or other training media. Clearly, the widespread use of personal computers and advances in videoconferencing, CDROM, and internet technologies provide new opportunities for interactive learning products and new ways to quickly disseminate the content of conferences to larger audiences. An additional consideration in defining the training program's product line is the fact that outside organizations also offer conferences on emerging issues in banking and related technical skills that can overlap with topics presented by FFIEC. For example, member agency participation as speakers at these competitors' conferences may provide the FFIEC with an alternative strategy for fulfilling its risk management training mandate without the FFIEC having to sponsor its own conferences. The presence of such competition also suggests that the FFIEC should ensure that its training program is first-rate so as to attract high-quality speakers and encourage attendance through such means as providing continuing education credits, which are routinely offered by competing commercial training organizations.

What are the consistency and efficiency objectives of the FFIEC and its task forces that the training program is trying to support?

Training program staff and TFEE members told us that the key to developing efficient and effective interagency training lies in the willingness and ability of users (usually represented by the Supervision or Consumer Compliance task forces) to agree on a consistent interpretation of the subject matter to be taught. When member agencies have agreed on a common training requirement, such as for testifying skills, the FFIEC training program has been an efficient way to meet a common need. However, when

users cannot agree on a common content, then the training program must arrange for separate seminars or break-out sessions for each agency taught by its own staff, thereby nullifying the potential consistency and efficiency benefits of interagency training. We believe that it is up to the FFIEC members and its subject area task forces to define the subject areas where consistency among member agencies is the goal (and perhaps those areas where it is not). In a similar way, the FFIEC members could establish goals, processes, and incentives that reflect the extent of their commitment for reducing combined agency training costs. Doing so would promote coordination and information sharing among the member agency staffs and allow the FFIEC training program to complement rather than compete with member agency programs.⁴ In that way, the training program can support the consistency and efficiency desired by the FFIEC members and subject area task forces.

REALIGNMENTS ARE NEEDED IN THE ROLES AND RESPONSIBILITIES OF THE TASK FORCES

Although the FFIEC, primarily through the Task Force on Examiner Education, has developed and offered courses, seminars, and conferences to meet the training needs, the FFIEC can improve its ability to determine present and future training needs and to develop and implement training courses. In addition, the FFIEC has been limited in being able to serve as a clearinghouse for information on the respective member agencies' course development plans for new training courses or modifications to existing training courses. Factors that have limited the FFIEC in developing and implementing its training program effectively and efficiently include:

- the present composition of the TFEE and the inability of members of the TFEE to make timely decisions relating to the training program;
- the current organizational responsibilities relative to the TFEE, the Task Force on Supervision, and the Task Force on Consumer Compliance; and
- the failure of the TFEE to ensure that its members brought their agency course development plans for new courses or major modifications to existing courses to the TFEE before beginning development work, as required by established procedures.

⁴ Regional training sessions are usually more costly for the FFIEC's training program to deliver. However, the additional cost may be more than offset by lower costs for member agencies arising from reduced travel expense or less downtime from normal duties. The problem in attaining such overall savings is that the benefits may accrue to only one or two member agencies while under current arrangements, the additional FFIEC expenses would be shared by other member agencies, which have been reluctant to absorb them. Moreover, because the focus of management reporting has been on reducing FFIEC training program spending, possibly more attention should be given to opportunities to save agency money by spending more on the FFIEC's training program.

Determination of Training Needs

In December 1989, the FFIEC delegated to the TFEE the authority to approve new or recommended courses for the training program whenever there is no dissenting vote by a task force member and no task force member requests a review by the Council. This authority includes reviewing and approving any training courses that are recommended to the FFIEC by the Task Force on Supervision and the Task Force on Consumer Compliance.⁵

Though responsible for the development and implementation of the FFIEC's training program, the TFEE has had limited success in determining the training needs and developing course curricula timely. Members of the TFEE described the TFEE as too slow in reaching the needed consensus on recommended or proposed changes to the training program. We were also told that the members of the TFEE had shown difficulty in reaching agreements on proposed courses and on the contents of proposed training courses. The inability to reach agreements timely tended to slow down the development of training courses and the implementation of recommended or proposed training courses.

Based on our discussions with member agency staff, the present TFEE members may not be the appropriate individuals to make decisions relative to the determination of examiner training needs because the TFEE members are, primarily, training managers and are not officials in the "supervision and examination" functional areas. Conversely, we found that within the member agencies' respective training functions, the decisions regarding determining examiner training needs, course curricula, training methodology, and staff resource allocations also include senior managers and user groups from the member agencies' "supervision and examination" functional areas. Thus, such decisions are not made entirely by the training managers in the respective member agencies.

It would appear that the Task Force on Supervision and the Task Force on Consumer Compliance should have a greater role and participation in the FFIEC's procedures for the determination of examiner training needs, course curricula, training methodology, and implementation of the FFIEC's training program. In part, such an arrangement would allow for greater input from agency managers who are in the supervision and examination functional areas and from managers who are also "users" of the FFIEC's training program.

⁵ The Task Force on Supervision provides a forum for the financial institution regulatory agencies in their efforts to promote quality, consistency, and effectiveness of examination and supervisory practices and to reduce regulatory burden. Its members are senior supervisory officials of the member agencies. The jurisdiction of the Task Force on Supervision includes all matters relating to the supervision and examination of depository institutions. The Task Force on Consumer Compliance promotes policy coordination and uniform enforcement of consumer laws by the five member agencies represented on the Council. It consists of senior personnel who are knowledgeable in consumer compliance matters.

Use of Steering Committee on Training

Evidence of the feasibility of increasing the level of participation and input of the Task Force on Supervision was demonstrated in the FFIEC in August 1996. As previously mentioned, the Steering Committee was established to provide direction regarding the member agencies' future training needs. The members of the Steering Committee consisted primarily of officials in the member agencies' supervision and examination functional area. The mission of the Steering Committee was to:

- review the viability and effectiveness of all existing FFIEC education programs;
- analyze internal agency present and future examiner training needs and identify those needs that could be effectively met on an interagency basis; and
- provide recommendations to both task forces regarding needed program deletions, additions, and changes.

The Steering Committee reviewed and evaluated the FFIEC's curriculum, recommending that some programs or courses be phased out and that several new programs, which had been approved by the FFIEC, be developed. In April 1997, the Steering Committee provided its final report to the Task Force on Supervision for review and approval. Later, the Steering Committee's report was provided to the Task Force on Examiner Education for approval and implementation in the FFIEC's 1998 training year. The report summarized the Steering Committee's recommendations and provided suggestions on the ways in which FFIEC's training program could continue to evolve to meet the needs of a maturing and experienced examiner force.

The use of the Steering Committee as a means to determine training needs was described by officials in the FFIEC as successful and effective. In part, this is because the evaluations of the FFIEC's training program were performed, essentially, by users of the examiner training program. More importantly, senior managers who were in the supervision and examination functional areas within their respective agencies performed the evaluations of the FFIEC's examiner training program. Members of the FFIEC also expressed that establishing the Steering Committee was an effective way to accomplish the stated objectives and, perhaps, should be done every 2 years or that the Steering Committee should be made permanent. In this proposal, the Steering Committee's role and responsibility would be to identify or determine examiner training needs and develop course curricula. This suggested change in the lines of responsibility would serve to enhance the role and responsibilities of two key Task Forces (Supervision and Consumer Compliance) within the FFIEC. This change would also increase the level of participation of the officials who are in the "supervision and examination" functional area and who also represent the users of the FFIEC's training program. As previously noted, such actions would serve to enhance the effectiveness and efficiency of the FFIEC's procedures for determining examiner training needs, developing course curricula, and implementing the FFIEC's training program. Such actions would also serve to maximize the FFIEC's benefit to the member agencies relative to its training program.

Serving As a Clearinghouse of Information on Member Agency Training Courses

Another opportunity that is available to the FFIEC that would allow it to maximize its benefit or value to the member agencies would be for the FFIEC to serve as a clearinghouse for information on the

respective member agencies' internal examiner training courses and activities. Such a role could include gathering information on a new examiner training course that a member agency is developing or changes that are being made to an existing course. According to the TFEE's policy statement, the members should bring their agency course development plans for new training courses or major changes to existing training courses to the TFEE before beginning development work. This approach is intended to afford the member agencies the opportunity to express their interest in a training course being offered by a member agency, and in the possible use of such training by the agencies' examiner staff. An FFIEC official told us that this policy has largely been ignored by the member agencies in recent years. Further, it is not uncommon for the member agencies to begin efforts to develop new training courses, independently of FFIEC, to meet their own agency training needs without sharing such information with the other task force members.

The failure of the TFEE to ensure that such information is provided to the FFIEC by the member agencies limits the ability of the FFIEC to provide examiner training through the joint sponsorship of interagency training. In our opinion, if the TFEE retains this responsibility, the FFIEC members should emphasize compliance. However, this is another function that could be assigned to a unit within the FFIEC such as the aforementioned Steering Committee. This responsibility could be performed in conjunction with the responsibility for determining examiner training needs, course curricula, and training methodology. In our opinion, the proposed change in responsibility would not result in any significant cost to the FFIEC. Instead, the proposed change would increase the FFIEC's effectiveness and efficiency in providing examiner training programs to meet the training needs of the member agencies.

Recommendation 2: The FFIEC should realign its task forces' authority and responsibilities relative to the determination of examiner training needs, course curricula, and training methodology in a manner that would increase the level of participation and input of senior officials in the member agencies who are in the "supervision and examination" functional areas.

Recommendation 3: The FFIEC should ensure that the member agencies share information on new examiner training courses that a member agency is developing or on changes that are being made to an existing training course. The FFIEC should also establish the means by which it can effectively serve as a clearinghouse of training-related information to the member agencies.

Implementation Considerations and Options for Restructuring the Management of FFIEC's Training Program, Including Information Sharing Responsibilities

Once the FFIEC members have specified the training program's mission, goals, objectives and scope of operations, they should be in a good position to consider which organizational arrangements are best suited to achieving a well-managed program. The organizational issue primarily involves reconsideration of the need, role, and composition for the TFEE. Also, it will depend on the autonomy that the training program will have to achieve its mission and how the member agencies will choose to exert control over training program activities as well as the information sharing and clearing house function. We offer three organizational alternatives that illustrate the choices available to the FFIEC.

Option 1 - FFIEC's Training Office Would Identify the Training Program's Needs and Direction

The FFIEC's training office would be responsible for identifying and satisfying user-training needs and deciding how best to meet them. Under this approach, the program should have authority to directly survey or otherwise interact with agency personnel to identify unmet needs and to market products intended to meet such needs. A TFEE would be unnecessary because the FFIEC members could establish guidelines, enforced by the Executive Secretary, that would ensure such contacts were not excessive and burdensome. Such a market-based arrangement would seem best suited to a training program mission that involved more conferences or other products developed by training program staff and outside consultants and few products that required instructors and course development staff from the member agencies.

Option 2 - The TFEE Would Continue to Determine the Direction of the Training Program but with a Higher Level of Authority and Responsibility.

Another approach is that the TFEE would continue to have responsibility for identifying member agency training needs, how the FFIEC training program can best meet user needs, and the level of effort that is appropriate. Under this option, the TFEE would be accountable for having appropriate processes to survey users or to interact directly with all the relevant user task forces, who in turn would be expected to coordinate all training activity with the TFEE. The training program would be accountable only for execution of the training activities approved by the TFEE and would have minimal direct contact with users unless authorized by the TFEE. While this approach could work regardless of the scope of the training program, we believe, as discussed in our second recommendation, that the TFEE members would need to have a higher level of authority and responsibility within their own agencies in order to fulfill their FFIEC responsibilities effectively.

Option 3 - FFIEC's User Task Forces Would Determine the Training Program's Direction

A third option is to give the FFIEC user task forces responsibility for identifying needs and deciding how the training program can best meet them. Under this approach, user groups, rather than the TFEE or the training program, would take responsibility for the appropriateness of decisions regarding such areas as target audience; content, frequency and method of delivery; course location; and speaker selection and fees. The training program should have the authority to interact directly with such groups and would develop relevant options so that users could make appropriate decisions within whatever budget parameters are established by the FFIEC members. A TFEE would not be necessary because the Executive Secretary could oversee budget execution and bring any significant budget or funding issues to the attention of FFIEC members and user task forces. This approach should be workable regardless of the scope of the training program's mission.

GREATER FLEXIBILITY NEEDED IN SCHEDULING, BUDGETING, AND FUNDING PROCESSES

The training program's annual budget is based on the single objective of delivering a planned schedule of conferences and training sessions. Member agency attendance commitments, which are formulated

during the preceding summer and finalized in November, determine the agency's respective shares of program cost. The TFEE and the Executive Secretary have focused on ensuring that the training program delivers the planned schedule of training sessions and conferences at the lowest cost. Use of this approach has helped to curtail growth in training program cost, generally aided the scheduling of facilities and instructors, and generally allowed member agencies to predict and control their share of program costs. However, we found that structure of these arrangements has discouraged or at least did little to encourage member agency use of the FFIEC's program and has reduced effectiveness of the budget process as a tool for ensuring that the program is operating efficiently and effectively. We also believe that the program would benefit from more flexibility in scheduling, budgeting, and cost sharing arrangements because FFIEC courses are not mandatory and current arrangements can impede the training program's ability to be responsive to user requirements.

Key Features of the Current Processes

The TFEE uses the planned schedule of FFIEC training courses as the program objectives for justifying the proposed budget.⁶ Proposed FFIEC course offerings for the upcoming year are established in April. The class schedule is developed during the summer as TFEE members survey their agencies for interest. The schedule and attendance commitments are finalized in November. The schedule and attendance commitments are used to establish each agency's percentage share of FFIEC training costs and their respective commitment to providing instructor time for FFIEC courses (instructor time is proportional to planned attendance). Because the schedule establishes the number of regional and Seidman Center sessions and outside instructors that must be hired, it enables the Training Office to schedule facilities and develop projections for budget categories such as instructor fees, staff and instructor travel, and training materials. These estimates serve as the basis for the training program budget that the TFEE submits to the Executive Secretary for approval by the FFIEC in December.

The FRB Management Division, which administers the FFIEC's "checkbook," assesses member agencies in January and July for half of their respective annual share of the FFIEC's training budget, net of anticipated revenue from outside sources (primarily tuition from bankers who attend the Risk Management Conferences). At the end of the year, actual training program expenses less actual outside revenue are allocated to each agency based on the established allocation percentage and applied against each agency's total assessments. Any difference between the assessment and actual expenses is incorporated as a refund or additional charge in the subsequent January assessment. Refunds have routinely occurred in recent years because the program has operated under budget or outside revenue was greater than anticipated. Table 3 shows the calculation of member agency cost shares for 1997.

⁶ Budgeting for FFIEC training is performed under a variation of the FRB's budget procedures and is monitored by the FRB's Management Division. The FRB process calls for program managers to develop estimates for various expense categories (salaries, travel, phone, etc.) in the context of achieving specific program objectives. The justification package typically includes a discussion of how well current year objectives were achieved with available funding and whether such objectives should be modified or eliminated. The managers also provide funding estimates for new initiatives or program enhancements so that senior management can consider alternative uses of funds among various program areas when it approves the functions budget.

TABLE 3: Calculation of Member Agency Cost Shares for FFIEC Training Program (1997)

Year-to-Date	FDIC	OCC	FRB	OTS	NCUA	OTHER	TOTAL
Weighted Courses Committed (1)	2,727.50	1,143.00	1,621.50	139.00	224.00	71.50	5,926.50
Actual Pro-Rata Share (2)	46.58%	19.52%	27.69%	2.37%	3.83%	N/A	100.00
Tuition Income Assessed and Received	\$660,712	\$263,732	\$371,576	\$32,586	\$52,194	\$234,050	\$1,614,850
Actual Training Program Expenditures (3)	\$590,427	\$247,428	\$351,010	\$30,089	\$48,490	\$234,050	\$1,501,494
Excess Income Refunded/ (Invoiced to Agencies)	\$70,285	\$16,304	\$20,566	\$2,497	\$3,704	\$0	\$113,356

Source: FFIEC Tuition Report, December 1997, FRB Management Division

(1) Enrollment weighted by various factors. Totals include original commitments plus commitments for new courses and/or additional students.

(2) Percentages of weighted courses committed. Percentages can vary slightly from those approved in the budget if the TFEE subsequently approves a new take-or-pay course or cancels a scheduled course.

(3) Total year-to-date expenditures (\$1,501,494) less other income (\$20,450) - nonmembers, (\$15,300) CRA Course, NY State Banking School (\$13,500) and Risk Management (\$184,800) distributed by percentages.

Effect of Current Process on Member Agency Participation in FFIEC’s Training Program

We found that the timing of the commitment process tends to limit NCUA and OTS use of the FFIEC’s training program. The “take-or-pay” scheduling and funding approach requires agency participants to commit to attending FFIEC courses at about the same time that some are being asked to sign up for their agency’s own courses. This arrangement enabled some TFEE members to concurrently schedule agency instructors for both FFIEC’s and their own courses and to determine the expected quantity and cost of participation in both FFIEC’s and agency examiner training. However, OTS and NCUA officials told us that the enrollment process for their own courses occurs after the FFIEC’s process and, therefore, they are reluctant to commit to FFIEC’s courses in July as expected. Because of the uncertainty in these two agencies’ estimates and their usual small size, the training program formulates its budget primarily on the participation plans of the other member agencies and adjusts for NCUA and OTS participation when numbers are finalized in November.

The scheduling process demands that users predict and commit to both course requirements and staff attendance several months in advance of the calendar year. Members of the Supervision and the

Consumer Compliance Task Forces said they are reluctant to commit to courses so far in advance when the attendance projection locks in a funding commitment. This is particularly true for courses that are still being developed or where training needs, such as those stemming from implementation of a regulatory change, have yet to be determined. For example, Consumer Task Force members told us that, in spite of considerable uncertainty in training need and content, they committed to offering an interagency course at a specific time, as required by the scheduling process. The result was that the course was delivered but users were dissatisfied because instructors were unable to answer many of their implementation questions at that time. While the training program needs lead time to schedule facilities, it appears that the required advanced commitment adversely affects user willingness to work with the FFIEC. As one Consumer Compliance Task Force member stated, joint interagency training is difficult to do and the FFIEC's Training Office should have flexibility to adjust rather than requiring users to fit to its schedule.

When we asked whether the cost sharing approach should be modified or eliminated, we were told that without it member agencies' personnel would not attend the FFIEC's training. This statement indicates a perception that the FFIEC's training is not of much value and that, in essence, member agencies must be coerced through a funding obligation to support it. If this is true, then this funding approach has achieved mixed results. We determined that agencies in total used between 75 percent and 86 percent of their annual committed slots from 1995-1997, with individual agency attendance ranging from 46 percent to 98 percent.⁷ The lower attendance percentage is an apparent indication of either the difficulty in making realistic attendance commitments in advance, a revised perception of the need for or value of the scheduled courses, or an agency's lower sensitivity to the fact that it has a higher per training session cost because it pays for slots even if left unfilled.⁸

Effectiveness of Budget Process for Program Oversight

We evaluated the implementation of the budget process to determine if it provided program managers and the FFIEC with the information necessary to ensure that FFIEC's Training Office operations were efficient and effective. We found that the current approach to budgeting based solely on delivery of the planned schedule does not allow for meaningful analysis of staffing and training program costs. Analysis is limited because the program has been encouraged to not spend to authorized levels for certain expense categories and because budget estimates had to be developed in recognition that unbudgeted courses and activities were likely to occur.

The training program has underspent its budget by 11.7 percent, 5.5 percent, and 14.7 percent in 1996, 1997, and 1998, respectively. However, annual budget performance reports for 1996 and 1997 show that the training program spending for most line items has varied considerably from budget amounts. In 1997, for example, the average variance for the 16 budget line items was about 41 percent from budget

⁷ Statistics are based on the FRB Management Division's tally of each agency's "weighted courses used" and "weighted courses committed," which are included in an annual tuition report to TFEE members.

⁸ We also noted that although the funding approach purports to penalize agencies if they do not show up for scheduled courses (within a 5 percent tolerance), this concept was considered too difficult to administer and was not implemented. Instead, agencies pay their committed share of FFIEC cost based on planned attendance. Actual attendance has no direct bearing on the agency's net cost unless such attendance affects FFIEC's training program costs. The "penalty" to agencies for non-attendance is that their average cost per trainee increases.

amount, with only 5 line items within plus or minus 10 percent of budget. The more predictable items, which account for the majority of program cost, were for essentially items such as salaries, benefits, space rental (from the FDIC), and administrative support (from the FRB) that generally experience incremental increases. Larger variances occurred in those categories such as instructor fees, travel, printing, and supplies, which depend on the selection of course delivery methods and which can have a direct impact on program quality. The program had developed estimates for these expense categories by summing reasonable, anticipated costs for scheduled and anticipated courses. However, the executive secretary and TFEE continued to encourage program management to reduce spending on instructor fees and related travel, notwithstanding the authorized funding levels for these categories established in the budget process.

While it may be commendable that in 1997 the training program was able to reduce its spending on outside instructors and their travel by nearly 30 percent from 1996 levels, we believe such reductions are matters of choice that are more appropriately integrated into the budget estimates, due to their implications for use of training program staff, training quality, and other costs. For example, training unit program development staff said that the need to find outside instructors that will work for free or for reduced fees has taken time away from other course development and preparation activities. Program staff also told us that as a general rule, paid instructors, relative to free consultants or donated agency instructors, can be held more accountable for performance. Consequently, paid instructors can usually be counted on to be well prepared and to provide training handbook materials to the Training Office on time so that such materials can be duplicated by the FFIEC at the lowest cost. Training staff provided us documentation of a recent example where the program had to spend more than \$2,500 for last minute on-site duplication services because the “free” instructor did not provide handbook materials ahead of time, and not furnishing such materials to students would have adversely affected training quality.

The effectiveness of the budget as a management tool has also been limited because each year the training program has responded to user requests for courses that were not included in the schedule that was the basis for the budget. In 1997, program administrators spent unbudgeted time developing five new courses for introduction in 1998 and also offered unbudgeted seminars in Cyberbanking and Community Reinvestment Act compliance. In 1998, the FFIEC helped develop and deliver Year 2000 training for examiners and worked with the Consumer Task Force to develop a new consumer compliance-training seminar. The continued occurrence of such unbudgeted activities illustrates the difficulty of using the advanced schedule of courses as the basis for meaningful budget category estimates.

We also noted that accommodating unbudgeted courses complicated cost sharing arrangements. When such courses occurred, the TFEE decided to offer them free or on a special fee basis outside of the routine cost sharing arrangement. As a result, attendant costs are either absorbed and paid according to the established cost sharing percentages, regardless of which agency’s staff attended, or the FRB Management Division processes separate user billings to each member agency based on the standard seminar or training cost rate, regardless of the actual FFIEC cost of delivering the session. When such training is separately billed, each agency’s total FFIEC cost for the year is not readily visible because such additional billings are not reported by agency but rather as outside income to FFIEC (comparable to payments by bankers for the risk management course). (See note 3 to Table 3 above.)

FFIEC's Unique Training Environment Justifies More Flexible Process

We believe that it was reasonable for the member agencies to oversee the FFIEC's training program by requiring a structured course schedule as the basis for budgeting because most member agencies budget for their own training programs in much the same way. However, we believe the operating environment for the FFIEC differs in two important ways that make the structured approach less appropriate. First, none of the FFIEC's courses are part of a mandatory curriculum, so demand is unpredictable and largely dependent on the relevance and quality of program offerings. In contrast, the major portion of each agency's program is a mandatory curriculum that assistant examiners must take to obtain their examiner commission. Therefore, for a substantial portion of agency course offerings, need is predictable, and for all other agency courses, attendance requirements can be mandated. Second, the FFIEC's staffing level is essentially fixed in the short-term whereas agencies have greater flexibility to increase or decrease program resources in response to changes in demand. This characteristic means that for the training program to be effectively managed, it should have program/budget objectives within which management would have the flexibility to use its staff and dollars to respond to changes in demand for the FFIEC's programs.

User-based cost sharing arrangements are also a reasonable carryover from agency internal practices of allocating costs to users. However, basing cost sharing on attendance commitments is not necessary. TFEF members believe that the use of attendance commitments allows each agency to predict its cost for FFIEC training and helps guarantee attendance. In our view, if the training is worthwhile and meeting agency needs, then agency staff will attend. If the FFIEC course or conference is viewed as unimportant or of poor quality, then agency staff should not attend. Forcing attendance to fill prepaid slots has the adverse effect of insulating the training program from a strong signal that change may be needed in the FFIEC's program. Moreover, we believe that improvements in the planning and management of the FFIEC's training program and additional impetus and oversight from the FFIEC should address the training quality issue because there will be agreement and, hopefully, a commitment of support by member agencies to the mission, objectives, and role for the FFIEC's training in the context of their own programs.

Recommendation 4: The FFIEC should modify its current approach to budgeting and funding the FFIEC's training program by:

- (a) implementing a more flexible course sign-up process that provides sufficient lead time for program planning but gives member agencies a reasonable opportunity to modify attendance commitments without penalty;**
- (b) providing training program management the authority, flexibility, and accountability to achieve program objectives while staying within approved spending levels and policy guidelines; and**
- (c) establishing cost sharing arrangements that encourage use of the FFIEC's training program and allow agencies to predict their share of program cost.**

Implementation Considerations for Budgeting and Funding FFIEC's Training Program

Any new scheduling, budget, and funding procedures should be supportive of and consistent with the strategic objectives and organizational arrangements developed in response to our other recommendations. For example, scheduling and sign-up requirements can be tailored to the lead time and financial risk associated with putting on specific programs. If strategic planning results in the program being directed to develop computer-based learning tools or Internet applications for examiners, new budget objectives should be implemented for these activities and funding arrangements should provide appropriate usage incentives. In addition, we believe that there are several ways for agencies to predict their share of the budgeted cost for the FFIEC's program without a direct linkage to the upcoming course schedule. The following are two examples based upon suggestions made by agency staff during our review. The first is a modification of the current usage-based approach. The second approach is a modification of the proportional cost sharing approach used in the first ten years of the program.

- The FFIEC could accumulate information on agencies' usage of the FFIEC's programs each year and base each agency's share of the upcoming year's program budget on a rolling average of the most recent 3 years' usage percentages. By using a rolling average, agency attendance could vary from year to year as needs dictate, but each agency's cost would remain fairly stable and each agency would still pay its fair share over the long run.
- The member agencies could fund the FFIEC's training program budget based on the relative size of their respective examination, commissioned examiner, or supervision workforce. The specific basis chosen would be consistent with the target clientele as defined in the training program's mission. This approach would encourage all agencies to use their share of FFIEC training offerings and products, since they are paying for them, and would encourage input from each agency so the FFIEC program will meet their respective needs.⁹

By implementing either of these approaches, the FFIEC would be able to evaluate certain related policies and procedures for consistency with the program's goals and objectives, while having less concern about how a policy change might create a sudden change in member agency costs in the next year. Such areas include: (1) enrolling and paying for state agency personnel (FRB and FDIC now include these needs in their payment share); (2) requiring or giving agencies credit for providing instructors and seminar presenters (currently agencies provide guest instructor time proportional to planned usage); (3) pricing course offerings and products based on actual cost (currently FFIEC sets standard prices for courses and conferences, respectively); and (4) charging outside parties for FFIEC products, including attendees at the FFIEC's risk management conferences.

FFIEC COMMENTS AND OIG EVALUATION

On March 22, 1999, the Executive Secretary provided formal written comments on the draft of this report on behalf of the Council (See Appendix A). The response states that the Council was generally

⁹ For example, based on the 1997 examiner workforce data presented in Table 1, the OTS and NCUA would together pay about 20 percent of the program budget versus the 7 percent that they are now paying based on usage.

receptive to our recommendations and that the Council had charged one of its members, the TFEE Chair, and the Executive Secretary to develop a recommended course of action for discussion at its next meeting. The Executive Secretary also indicated that the implementation process could be greatly enhanced with continued assistance and guidance from the interagency OIGs.

When asked, the OIGs intend to provide appropriate assistance to the FFIEC. Additionally, the FDIC Office of Inspector General as the lead agency on this audit will periodically monitor the status of the recommended actions.

Federal Financial Institutions Examination Council



2000 K Street, NW, Suite 310 • Washington, DC 20006 • (202) 872-7500 • FAX (202) 872-7501

March 22, 1999

Mr. Gaston Gianni
Inspector General
Federal Deposit Insurance Corporation
Office of the Inspector General
801 17th Street, N.W.
Washington, DC 20434

Dear Mr. Gianni:

On March 5, 1999, the Council began discussion of the interagency Inspector General's recent audit of the FFIEC examiner education function. The Council was generally receptive to recommendations made for improvement of the education process, and has charged Council Member Ellen Seidman, along with Task Force on Examiner Education Chair Mark Nishan and myself to develop a recommended course of action to be presented to the Council for discussion at the June meeting.

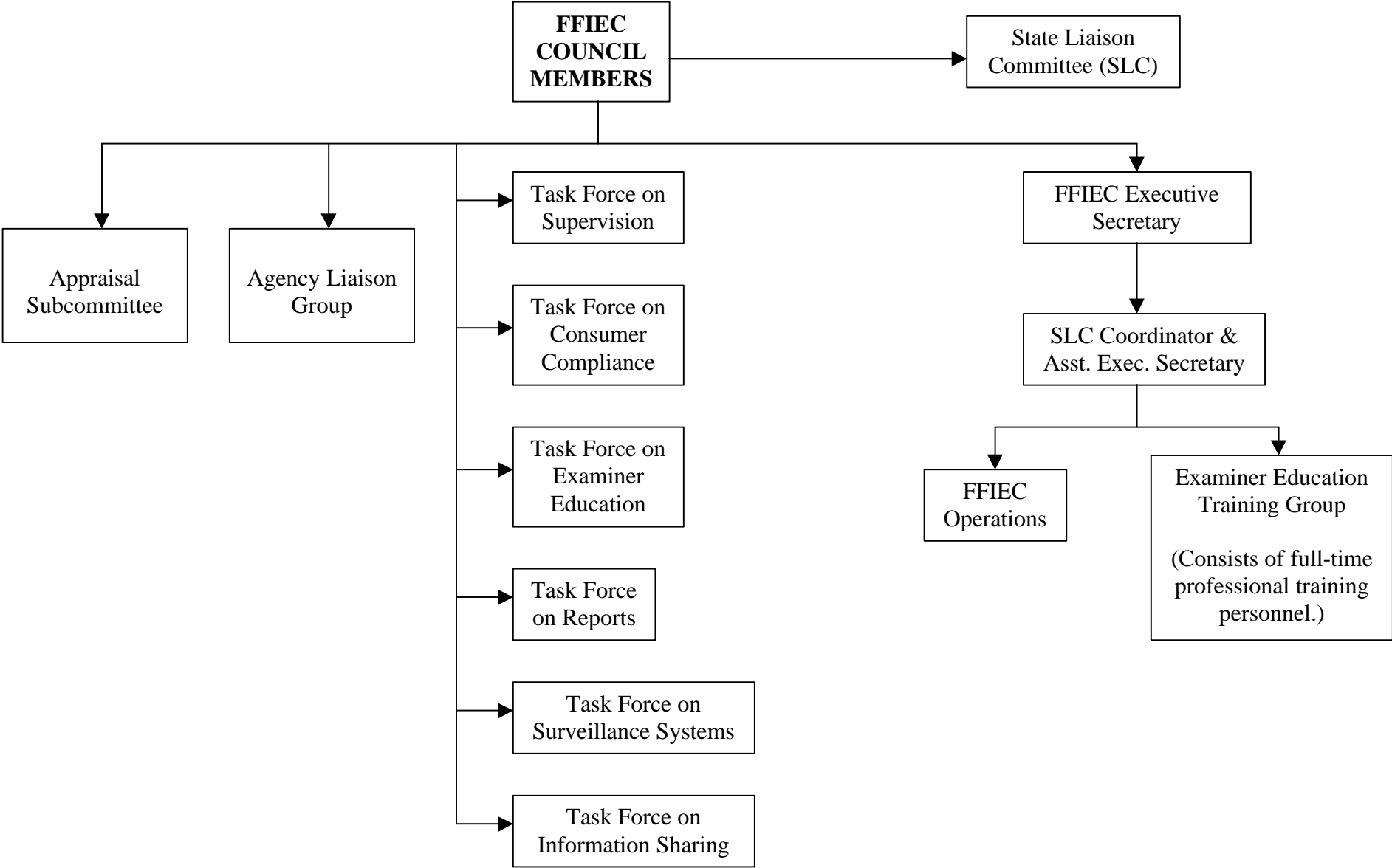
It is anticipated that the implementation process could be greatly enhanced with continued assistance and guidance from the interagency I.G.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith J. Todd". The signature is fluid and cursive, with a large, prominent loop at the end.

Keith J. Todd
Executive Secretary

FFIEC Organization Chart



**FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL
SUMMARY OF EXAMINER TRAINING
1990 THROUGH 1998**

APPENDIX C

COURSES (Active courses are highlighted)	1990		1991		1992		1993		1994		1995		1996		1997		1998	
	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students
Instructor Training	13	211	12	205	11	178	10	200	16	264	16	261	13	185	13	172	8	101
Management Workshop	27	589	28	566	31	585	27	507	24	536	27	523	6	90	2	34	0	0
Fundamentals of DP	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Trust Conference	1	152	1	166	1	169	1	174	1	166	1	157	1	179	1	221	1	235
EDP Work Program	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Basic International (Self-Study) (formerly Basic Int'l Bk. & Int'l Banking I)	5	138	3	116	S-S	659	S-S	156	S-S	159	S-S	252	S-S	176	S-S	145	S-S	18
Basic Entry Level Trust	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
International Banking School (formerly Intermed. Int'l Bk. & Int'l Banking II)	4	111	3	71	3	92	6	159	7	207	7	185	6	182	3	84	3	75
Consumer Protection MSRB (Bank Mun. Dealer)	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Information Systems & Technology (formerly EDP Technology)	1	159	1	155	1	151	1	168	1	156	1	166	1	164	1	215	1	255
International Banking Conference	0	0	0	0	1	84	0	0	1	110	0	0	1	92	0	0	1	95

COURSES (Active courses are highlighted)	1990		1991		1992		1993		1994		1995		1996		1997		1998	
	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students
Payment Systems Risk (formerly Large \$ Transfer Risk)	3	130	2	93	2	112	6	254	3	228	3	207	3	247	4	320	3	250
Conducting Meetings with Management	23	275	3	42	3	45	1	5	0	0	0	0	0	0	0	0	0	0
Real Estate Lending (formerly Income Property Lending)	8	530	7	492	6	537	6	567	6	516	5	292	3	145	2	110	0	0
International Capital Markets	3	125	3	84	****	****	****	****	****	****	****	****	****	****	****	****	****	****
White Collar Crime	11	753	9	602	11	716	10	723	9	617	8	626	7	544	5	403	1	91
Off-Balance-Sheet Risk	9	581	7	487	7	569	9	740	7	582	5	339						
OBSR with Emphasis on Capital Markets									2	148								
Capital Markets											3	218	11	909	7	627	4	382
IS Symposium (formerly EDP Symposium)	1	11	1	10	1	11	1	11	1	9	1	11	1	16	1	29	0	0
Foreign Exchange Treasury Operations	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Asset/Liability Management Workshop	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**
Testifying	1	15	4	64	5	80	4	62	4	59	3	43	4	57	3	41	3	41
Emerging Issues - Community					2	155	4	341	7	655	9	769	9	892	9	837	7	621
- Multinational							1	85	2	148	2	164	3	237	3	208	2	152

COURSES (Active courses are highlighted)	1990		1991		1992		1993		1994		1995		1996		1997		1998	
	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students	Ses-sions	Students
CRA Forum (Consumer)							1	163							***	***	1	56
CRA Examiner Training											5	1133			3	293		
Cyberbanking											1	107	1	100	1	83	1	88
Advanced Credit Analysis																	3	276
Advanced White Collar Crime																	3	237
Computer Assisted Presentations																		
Syndicated Loan Seminar																	4	104
Y2K Training-General																	3	143
Y2K Training- Advanced																	5	215
TOTAL	110	3780	84	3153	85	4143	88	4315	91	4560	97	5453	70	4215	58	3822	54	3435
Risk Management Planning-Bankers	1	110	3	411	3	637	2	406	2	332	2	401	2	382	2	476	2	428
Risk Management Planning-Examiners		0		17		53		63		138		117		139		0		0
Fair Lending									3	795								
GRAND TOTAL SESSIONS	111		87		88		90		96		99		72		60		56	
GRAND TOTAL STUDENTS		3890		3581		4833		4784		5825		5971		4736		4298		3863

** Project discontinued after pilot session

*** Discontinued as a Council course and returned to a member agency

**** Merged into International Banking School

APPENDIX D

MAJOR CONTRIBUTORS TO THE REVIEW OF FFIEC's TRAINING PROGRAM

FEDERAL DEPOSIT INSURANCE CORPORATION

Magdaleno Velasquez, Audit Manager
William H. Stevens, Senior Management Analyst
Coleman P. O'Toole, Audit Specialist
Robyne Phuse-Green, Audit Assistant

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Paul Zacharias, Senior Auditor

DEPARTMENT OF THE TREASURY

Charles D. Trahan, Senior Auditor

NATIONAL CREDIT UNION ADMINISTRATION

William A. DeSarno, Assistant Inspector General for Audits
Keisha Key, Audit Assistant