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General Government Division

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September 15, 1998

The Honorable Donna Tanoue
Chairman
Federal Deposit Insurance Corporation

Subject: The Results Act: Observations on FDIC's Annual Performance Plan

Dear Ms. Tanoue:

This letter provides our observations on the Federal Deposit Insurance Corporation's (FDIC) 1998[1] annual performance plan submitted to meet the requirements of the Government Performance and Results Act of 1993 (the Results Act). We were asked by the House Committee on Banking and Financial Services to review this plan together with annual plans submitted by other financial regulatory agencies. This letter provides our assessment of how well FDIC's performance plan meets the requirements of the Results Act, as well as our observations for improving future performance plans.

Annual performance plans can be an invaluable tool for making policy decisions, improving program management, enhancing accountability, and communicating to both internal and external audiences how the long-term strategic direction outlined in strategic plans is translated into the day-to-day activities of managers and staff. Successful implementation of a performance-based management system, as envisioned by the Results Act, represents a significant challenge requiring sustained agency attention.

While opportunities exist to improve FDIC's initial performance plan, actions to date clearly show a good faith effort to implement the Results Act. In our discussions with your staff, we found FDIC seriously committed to fulfilling both the requirements of the Act and congressional expectations that the plans inform Congress and the public about FDIC's performance goals, including how the agency will accomplish goals and measure the results. The points made in this letter are intended to assist FDIC in its continued efforts to implement the Act. As such, the content of this letter focuses greater attention on areas where

[1]In cases where an agency operates on a fiscal year different from October 1 to September 30, the performance plan should correspond to the agency's fiscal year. FDIC operates on a calendar year basis.

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improvements might be made to enhance your plan and less on areas where FDIC has already made significant progress.

BACKGROUND AND APPROACH

In recent years, agencies have faced demands to be more effective and less costly, coupled with a growing movement toward a performance-based approach to management. Congress enacted the Results Act in 1993 as part of a framework of reform legislation that included the Chief Financial Officers Act and information technology reform legislation, such as the Clinger-Cohen Act of 1996, to address these demands and to instill performance-based management in the federal government. The Results Act is designed to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results. The Act is intended to shift the focus of government decisionmaking and accountability away from a preoccupation with activities–such as bank examinations completed–to focus on the results of those activities–such as improvements in bank safety and soundness.

Under the Results Act, agencies are to develop strategic plans, annual performance plans, and annual performance reports. The strategic plan is to serve as the starting point and basic underpinning of the performance-based management system and include the agency's mission statement and its long-term goals and the strategies that agencies will use to achieve these goals. FDIC submitted its first strategic plan under the Results Act to Congress and the Director of the Office of Management and Budget (OMB), as required, by September 30, 1997. In its 1997-2002 strategic plan, FDIC established 23 strategic goals and 52 strategic objectives covering its various programs and the functions organized under these programs. The annual performance plan is to link the agency's day-to-day activities to its long-term strategic goals. The first plan, covering calendar year 1998, was submitted to OMB in the fall of 1997 and to Congress after the President's budget in February 1998. The first performance reports are due to Congress and the President no later than March 31, 2000. Performance reports are to evaluate the agencies' progress toward achieving the goals in their annual plans.

The Results Act requires federal agencies to prepare annual performance plans covering the program activities set out in the agencies' budgets. These plans are to (1) establish performance goals to define levels of performance to be achieved; (2) express those goals in an objective, quantifiable, and measurable form; (3) briefly describe the operational processes, skills, and technology, and the human, capital, information, or other resources required to meet the goals; (4) establish performance measures for assessing the progress toward or achievement of the goals; (5) provide a basis for comparing actual program results with the established goals; and (6) describe the means used to verify and validate measured values.

For the purposes of our review, we collapsed the six requirements of the Results Act for annual performance plans into three core questions. These three core questions were: (1) To what extent does the agency's performance plan provide a clear picture of intended performance across the agency? (2) How well does the agency's performance plan discuss the strategies and resources the agency will use to achieve its performance goals? (3) To what extent does the agency's performance plan provide confidence that its performance information will be credible? These questions are contained in our February 1998 congressional guide and our April 1998 evaluators' guide for assessing performance plans, both of which we used for our review.[2]

These guides integrated criteria from the Results Act, its legislative history, the 1997 Office of Management and Budget's (OMB) guidance for developing performance plans (OMB Circular A-11, part 2), a December 1997 letter to OMB from several congressional leaders, and our other reports on the implementation of the Results Act.[3] We used the criteria and questions contained in the guides to help us determine whether FDIC's plan met the requirements of the Act, to identify strengths and weaknesses in the plan, and to assess the plan's usefulness for executive branch and congressional decisionmakers.

We obtained comments on our observations at the exit conference and on a draft of this letter from the Associate Director, Budget and Cost Analysis Branch, and his staff. Their comments are discussed near the end of this letter. We did our work between May and July 1998 at FDIC headquarters in Washington, D.C., in accordance with generally accepted government auditing standards.

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[2]See Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking (GAO/GGD/AIMD-10.1.18, Feb. 1998) and The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans (GAO/GGD-10.1.20, Apr. 1998).

[3]See The Government Performance and Results Act: 1997 Governmentwide Implementation Will Be Uneven (GAO/GGD-97-109, June 2, 1997) and Managing for Results: Agencies' Annual Performance Plans Can Help Address Strategic Planning Challenges (GAO/GGD-98-44, Jan. 30, 1998).

RESULTS IN BRIEF

FDIC has made a good initial effort in preparing its performance plan. As discussed in the sections that follow, FDIC's annual performance plan contains the basic elements required by the Results Act. However, the FDIC plan could be more useful to congressional decisionmakers if it had more performance goals that are results-oriented, objective, and quantifiable; and fewer that describe strategies. The plan could also be improved if it linked more performance goals and measures to strategic goals, more clearly explained FDIC's plans for coordinating its efforts with other financial regulatory agencies, and better explained how FDIC's strategies and resources will help the agency achieve its performance goals. Lastly, the plan would be more useful if it had more specific information on improving the verification and validation, and addressing the limitations, of its performance data.

FDIC'S PERFORMANCE PLAN SHOULD PROVIDE A CLEAR PICTURE OF INTENDED PERFORMANCE

The Results Act and OMB guidance call for a performance plan that clearly defines expected performance; connects goals, mission, and activities; and recognizes crosscutting efforts. Under the Act, the plan is required to provide a basis for an agency's comparison of actual results with performance goals. For this comparison, the agency needs to set goals and develop appropriate performance measures and show how it will use them to measure performance across the agency. By showing the relationship between the annual performance goals and the agency's strategic goals and mission, an agency's performance plan can demonstrate how the agency intends to make progress toward achievement of the strategic goals. An agency's plan should also discuss the crosscutting nature of its programs and how it will contribute to achieving crosscutting performance goals.

The FDIC plan makes a good start at defining expected performance, a key component of the performance plan. However, the plan could better address intended agency performance in several ways. For example, while some performance goals in the plan are expressed objectively and quantifiably, others are not. Many goals are expressed as strategies for accomplishing a strategic goal, rather than as performance goals. In addition, the goals largely describe processes or outputs, instead of desired program or functional outcomes or results. In addition, the plan could better clarify the relationship between strategic goals and mission and the performance goals and expand its discussion of crosscutting efforts with other regulatory agencies.

Defining Expected Performance

The Results Act requires an agency's annual performance plan to contain both a set of annual goals that establishes its intended performance and measures that can be used to assess progress towards achieving those goals. The Act defines a performance goal as an intended level of performance expressed as a tangible, measurable objective against which actual achievement can be compared, and includes goals expressed as a quantitative standard, value, or rate. A performance measure is a tabulation, calculation, recording of activity or effort, or assessment of results compared with intended purpose. A performance goals that is expressed objectively and quantifiably and does not require additional measures is considered self-measuring.

The FDIC performance plan could better provide a statement of expected performance for subsequent comparison with actual performance in several ways. First, not all FDIC's performance goals can be objectively or quantifiably measured. FDIC presents its performance goals without measures, that is, as self-measuring performance goals. Performance goals that are self-measuring should be expressed objectively and quantifiably and thus without the need for additional measures. Many of the FDIC performance goals meet that criteria. For example, FDIC's performance goal to reopen an institution or begin depositor payouts within 3 calendar days of an institution's failure is self-measuring and does not require additional measures. However, 16 of FDIC's 54 performance goals are not self-measuring, such as those calling for the production of regular Division of Insurance and Division of Supervision reports or for FDIC to maintain the effectiveness of enforcement actions, because they do not have a specific unit of measurement.

Second, FDIC often presents strategies for accomplishing performance goals as performance goals. According to OMB guidance, an agency's performance plan may include some performance goals and measures called "means-type." Means or strategies typically cover processes, technologies, or certain types of resources that will be applied to help achieve a program or operational goal. OMB's guidance states that, when included, means-type goals should be few in number, key to program accomplishments, and not a substitute for goals and measures covering core programs and activities. Of FDIC's 54 performance goals, 21 are means-type goals, many of which do not appear key to program accomplishment. For example, FDIC has performance goals to perform studies, develop guidelines, or develop technology alternatives for information dissemination.

Third, FDIC could improve the plan by focusing more on outcomes, which the Results Act emphasizes. Ten of FDIC's 54 performance goals address outcomes. For example, in support of the strategic goal of minimizing costs to the insurance funds from failing institutions, performance goals call for resolving failing banks within 90 days and reopening an institution or beginning depositor payouts within 3 days of the institution's failure. However, many other performance goals are process- or output-oriented, such as performing 3,081 safety and soundness examinations. Developing better outcome goals and measures is a common problem within the federal government, particularly in regulatory agencies where it can be difficult to relate activities to specific outcomes. FDIC officials said that they recognize that many performance measurements in the performance plan are output-related. They said FDIC is now developing more outcome-oriented performance measurements.

Finally, FDIC's process or output goals could be strengthened by including a baseline to help the reader understand the reasonableness of the output or process target. For example, FDIC does not provide a baseline for the number of safety and soundness examinations completed in the past, or for the number that should be completed each year as part of ensuring safety and soundness. Without this contextual information, the reader does not know if FDIC's output-oriented performance goals, such as completing 3,081 safety and soundness examinations during the year, are reasonable.

Connecting Mission, Goals, and Activities

The Results Act and its guidance expect a clear relationship to exist between an agency's long-term strategic goals and mission and the performance goals in the annual performance plan. Performance goals should also cover each program activity in the agency's budget. The FDIC plan could be improved in several ways by clarifying the relationship between the long-term strategic goals and mission and the annual performance goals. First, the plan's presentation of many separate elements makes it difficult to link strategic goals, mission, and performance goals across the agency. The plan's 54 performance goals support 23 strategic goals and 52 strategic objectives; the performance goals are displayed in 12 functional areas under 4 program areas. Each functional area includes multiple performance goals. This level of complexity makes it difficult to identify FDIC's key priorities among the multitude of goals and objectives, differentiate efforts to meet these priorities, and understand what will be achieved if all the performance goals are met. FDIC officials said that in developing their new strategic and performance plans, they are attempting to simplify the linkages between goals and objectives.

Second, the plan could be further improved by better matching performance goals with strategic goals. Fourteen of FDIC's 23 strategic goals are either not covered or only partially covered by performance goals. For example, performance goals do not exist for the strategic goal of facilitating banks' and community-based organizations' participation in community reinvestment initiatives and for three of the organization and human resources function strategic goals. In addition, while 38 of the performance goals address the performance expected in their respective strategic goals, the remaining 16 do not clearly indicate how they relate to the strategic goals. For example, the performance goal regarding mailing examination reports to a bank's board of directors within an average of 45 days after completion of the safety and soundness examination is not clearly related to its strategic goal of maintaining the viability of the deposit insurance funds.

Third, performance goals could be better linked to program activities in the FDIC budget. The Results Act requires that the annual performance plan identify annual performance goals that cover all activities in the agency's budget. While FDIC's performance plan is organized by program area and by functional areas within each program area, the budget is organized by the three insurance funds administered by FDIC, making it difficult to connect the plan to the budget.

Recognizing Crosscutting Efforts

Results Act guidance states that an agency's performance plan should identify those performance goals that are being mutually undertaken in support of programs or activities of an interagency, crosscutting nature.[4] The FDIC plan partially addresses the need to coordinate efforts and actions with other financial regulatory agencies that have related strategic or performance goals. The performance plan discusses the efforts of an interagency working group[5] to address the development of common performance measures among the agencies. In addition, the plan observes that such measures will be considered in the 1999 performance plan.

When we asked FDIC officials why crosscutting activity measures were not included in the 1998 FDIC plan, they said that the working groups had not yet produced crosscutting performance goals or measures that could be included in the plan. The crosscutting efforts by the working group described in the strategic plan, performance plan, and by FDIC officials during our interviews are limited to exploring ways to develop common processes and criteria for improving individual agency efforts. Although this is a necessary first step, Results Act guidance encourages agencies to

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[4]OMB's July 1, 1998, A-11 guidance states that, at a minimum, the annual plan should indicate those programs or activities that are being undertaken with other agencies to achieve a common purpose or objective. An agency should also review the fiscal year 1999 performance plans of other agencies participating with it in a crosscutting program or activity to ensure that goals and indicators for a crosscutting program are consistent and harmonious.

[5]The interagency working group is made up of representatives from the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration, and FDIC.

develop common performance goals and measures for related programs. These goals and measures should address broader overlapping regulatory issues, such as federal bank oversight system inconsistencies in examination policies and practices and enforcement actions identified in our earlier work.[6] For example, a performance goal could be that FDIC will remove inconsistencies in joint examinations within a certain period of time.

THE PERFORMANCE PLAN SHOULD DISCUSS HOW STRATEGIES AND RESOURCES WILL HELP FDIC ACHIEVE ITS GOALS

The Results Act requires that annual performance plans describe the strategies and resources the agency intends to use to achieve its performance goals. Typically, strategies cover those operational processes, skills, and technologies that an agency intends to use to achieve program goals. Resources cover capital, human, financial, and other resources. To meet this requirement, the FDIC plan needs to better link strategies and resources to performance goals instead of to functional areas.

Connecting Strategies to Results

The Results Act and its guidance require that the performance plan should briefly describe the agency's strategies to accomplish its performance goals. The FDIC plan describes detailed strategies by functional area rather than by specific performance goals. This approach results in strategies being discussed solely within broad functional areas, which makes it difficult to connect particular strategies with a specific goal to be accomplished. For example, the receivership management functional area lists five performance goals: (1) reduce the number of receiverships in active status to 878 by year-end 1998; (2) collect $1.15 billion from the administration and disposition of failed institution assets by year-end 1998; (3) reduce the value of failed institution assets managed by FDIC by $1.65 billion; (4) complete a study of receivership management policies and procedures by March 1998; and (5) develop an oversight program for the management and disposition of high-risk assets by March 1998. The strategies for the functional area include (1) a study to evaluate the methods used in the management of a failed institution receivership; (2) development of a core training program covering all aspects of receivership management; and (3) initiation of research on Year 2000 issues that might affect receivership managed assets. Because one set of strategies covers all five goals and nothing links particular strategies to particular goals, it is difficult to determine what specific means FDIC will use to achieve any one of the five performance goals.

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[6]See Bank and Thrift Examinations: Adoption of Risk-Focused Examination Strategies (GAO/T-GGD-98-13, Oct. 1997).

In addition, although the Results Act does not require that the performance plan specifically discuss the impact of external factors on achieving performance goals, we believe that a discussion of such factors would provide additional context regarding anticipated FDIC performance.[7] While the FDIC performance plan discusses to some extent the impact of external factors on operations in some functional areas, these discussions could better identify the potential impact of external factors on the achievement of the plan's goals. External factors are a particularly important consideration in the banking industry where factors such as economic downturns could dramatically affect FDIC's ability to achieve its goals.

Connecting Resources to Strategies

The Results Act requires that the plan briefly describe the capital, human, financial, and other resources being applied to achieve the performance goals. As it does with strategies, the FDIC performance plan discusses resources by functional area and not by specific performance goal. No resources are discussed for internal corporate initiatives. Therefore, resources are not explained in the context of achieving specific performance goals. In addition, the plan discusses staffing resources in functional descriptions, but does not discuss capital, financial, or other resources. As a result, it is not clear what resources beyond staff are needed to achieve specific strategies and corresponding performance goals.

FDIC'S PLAN SHOULD DISCUSS THE CREDIBILITY OF PERFORMANCE INFORMATION

Results Act guidance states that the performance plan should describe credible procedures to verify and validate the measured values of actual performance. The plan should also identify significant data limitations and discuss how they or other factors affect the credibility of performance information. FDIC's plan provides information on performance data verification and validation procedures by functional area. However, in most cases, the discussion of such procedures is quite general, does not cover individual performance measures, and does not address data limitations.

Verifying and Validating Performance Information

Results Act guidance states that the plan should describe credible procedures to verify and validate the measured values of actual performance. The FDIC plan could better meet the Results Act requirements by specifically discussing procedures used to verify

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[7]See The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans (GAO/GGD-10.1.20, Apr. 1998).

and validate performance information. The plan provides a description of verification and validation for most functional areas, and some meet Results Act criteria. For example, the verification and validation section for one risk management functional area describes the analysis and checks of reasonableness of reported data for the Compliance Statistical System. However, only 7 of FDIC's 54 performance goals specifically mention verification and validation procedures. Thirty-one of the performance goals are covered by general discussions of verification and validation, without a specific discussion by performance goals. Sixteen performance goals make no mention of verification or validation procedures.

Recognizing Data Limitations

The Results Act guidance states that, as appropriate, the plan should identify and describe in sufficient detail the specific performance data required, as well as the means for collecting, maintaining, and analyzing the data, to allow an assessment of the extent to which it is credible. The FDIC plan would be more useful if it discussed data limitations of internal and external data sources and their implications for assessing the achievement of performance goals. FDIC officials said that they had not identified any data limitations. However, the plan could be improved if it explained the basis for this judgment. More importantly, as FDIC moves more to outcome-oriented performance information, there is likely to be a greater dependence on external data sources whose limitations should be recognized by FDIC.

AGENCY COMMENTS AND OUR EVALUATION

We provided FDIC officials with a draft of our observations and met with them on July 16, 1998, to discuss our observations and obtain their comments. We also provided them a draft of this letter. The officials said that they were in agreement with our observations and appreciated our comments on FDIC's performance plan. The officials said that our observations will be used in drafting new strategic and performance plans.

The officials noted that FDIC has recently made great strides in an effort to shift their focus from primarily a process and output orientation to a results orientation by working closely with division and office planning contacts and encouraging the development of outcome goals versus output-oriented goals. They said that the new orientation is reflected in their strategic plan goals and objectives and will flow down to future FDIC corporate, division, and office annual performance plans. In addition, FDIC is reducing the number of performance goals in the plan and will be selecting the "critical few" that represent FDIC's priorities for the coming year. The officials also said that FDIC will more clearly present or demonstrate the linkage of the annual performance goals to the agency's strategic goals.

FDIC officials also noted that they intend to link directly to each annual performance goal the means and strategies, and external factors, as well as the means to verify and validate the information that will be used for performance reporting. In 1999, the plan will include estimates on spending levels and personnel requirements. FDIC also plans to link budget and staffing at the program level area, thus tying the performance plan to FDIC's budget and to the program and funding schedules provided to OMB.

With regard to crosscutting efforts and agency coordination, the officials said that FDIC has been working closely with the other federal financial regulatory agencies to address issues and concerns that transcend the jurisdiction of the individual agencies. They said that the agencies agree on the importance of developing similar outcome- or results-oriented goals and measures in the areas of safety and soundness examinations, Year 2000 preparations, applications, public awareness, community affairs, examination outreach, and consumer complaints. However, no new goals or measures will be recommended for interagency use without a trial period during which differences among the agencies can be analyzed and corrected. The FDIC officials said that the agencies will move to common measures in 1999.

The FDIC officials said that verification and validation of performance information will be linked to each annual performance goal. They believe that, because of this direct linkage, a more comprehensive discussion of each process or procedure used to measure the degree of achievement of the annual performance goals will be included in the annual performance plan.

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We are sending copies of this letter to the Chairman and Ranking Minority Member of the House Committee on Banking and Financial Services; the Chairman and Ranking Minority Member of the Senate Committee on Banking, Housing, and Urban Affairs; and the Director, OMB. We will also make copies available to others on request.

This letter was prepared under the direction of Kane Wong, Assistant Director. Other major contributors are listed in enclosure I. Please contact me at (202) 512-8678 or Mr. Wong at (415) 904-2123 if you or your staff have any questions about this letter.

Sincerely yours,

Richard J. Hillman

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Associate Director, Financial Institutions
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Enclosure

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RELATED GAO PRODUCTS

The Results Act: Observations on Draft Strategic Plans of Five Financial Regulatory Agencies (GAO/T-GGD-97-164, July 29, 1997).

Managing for Results: Regulatory Agencies Identified Significant Barriers to Focusing on Results (GAO/GGD-97-83, June 24, 1997).

Managing for Results: Analytic Challenges in Measuring Performance (GAO/HEHS/GGD-97-138, May 30, 1997).

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