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General Government Division

B-280531

September 15, 1998

The Honorable Norman E. D'Amours
Chairman, National Credit Union Administration

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

Dear Mr. D'Amours:

This letter provides our observations on the National Credit Union Administration's (NCUA) calendar year¹ 1998-1999 performance plan submitted to Congress 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 along with annual plans submitted by other financial regulatory agencies. This letter provides our assessment of how well the NCUA performance plan meets the requirements of the Results Act, and our observations for improving future 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 NCUA'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 NCUA seriously committed to fulfilling both the requirements of the Act and congressional expectations that the plans inform Congress and the public about agencies' performance goals, including how the agency will accomplish goals and measure the results. The points made in this letter are intended to assist NCUA in its continued efforts to implement the Act. As such, the content of this letter focuses greater attention

¹In 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. NCUA operates on a calendar year basis.

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

BACKGROUND AND APPROACH

In recent years, agencies have faced demands to be more effective and less costly, and a growing movement toward performance-based management has begun in response. 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 seeks to shift the focus of government decisionmaking and accountability away from a preoccupation with activities—such as the number of credit union examinations completed—to focus on the results of those activities—such as improvements in credit union 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. NCUA submitted its first strategic plan under the 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, NCUA defined six strategic goals, which were to (1) promote a system of financially sound, well-managed federally chartered credit unions; (2) protect member savings in federally insured credit unions; (3) meet credit unions' liquidity needs through the Central Liquidity Facility and a financially sound, well-managed corporate credit union system; (4) promote the availability of credit union financial services in general to American consumers and in particular to people of small means; (5) ensure compliance with consumer regulations; and (6) responsibly manage the agency's human, financial, and technical resources. 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 years 1998 and 1999, 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 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 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, which we used for our review.²

These guides integrated criteria from the Results Act, its legislative history, the Office of Management and Budget's 1997 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 NCUA'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.

²See 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).

³See 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).

We obtained oral comments on a draft of this letter from the Director of Strategic Planning and his staff. Their comments are discussed near the end of this letter. We did our work between May and July 1998 at NCUA headquarters in Washington, D.C., in accordance with generally accepted government auditing standards.

RESULTS IN BRIEF

NCUA has made considerable progress in developing a performance plan to address its strategic plan. As discussed in the sections that follow, NCUA's first performance plan contains the basic elements required by the Results Act. The plan specifically references its 1997-2002 strategic plan goals and mission statement. The performance goals encompass all of NCUA's program activities described in the President's budget submission. Areas where the performance plan could be improved to make it more useful to congressional decisionmakers include (1) better definitions of some performance goals, measures, and targets and their linkages to strategic goals, and better coverage of crosscutting efforts with other financial regulatory agencies; (2) a fuller description of the connection between strategies and results and how specific resources are needed to accomplish performance; and (3) a fuller explanation of performance information verification and validation efforts and explanations of data limitations for internal and external performance data sources.

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

The Results Act requires that the annual performance plan provide a basis for an agency's comparison of actual results with performance goals. For this comparison, an 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 achieving its strategic goals. An agency's plan should also discuss the crosscutting nature of its programs and how performance goals will contribute to achieving crosscutting performance.

NCUA's performance plan partially provides a basis for comparing actual results with performance goals. For example, the plan specifically references its 1997-2002 strategic plan goals and mission statement. It includes several outcome measures. However, the plan could provide a clearer picture of the agency's intent by better defining performance goals—which are called objectives in the NCUA plan—measures, and targets; linking performance goals to strategic goals; and better covering crosscutting efforts.

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 toward achieving those goals. The Results 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. Performance measures are a tabulation, calculation, recording of activity or effort, or assessment of results compared with intended purpose. Performance goals that are expressed objectively and quantifiably and do not require additional measures are considered self-measuring.

In places, NCUA's performance plan provides a succinct and concrete statement of the agency's expected performance for subsequent comparison with actual performance. However, in other places, the plan's definition of expected performance could be improved in several ways. First, all of NCUA's performance goals are stated as abstract goals, requiring the defining of specific performance measures in order to assess progress towards goals. Some goals could be stated with a measurable objective or performance target in their description rather than being broadly defined as abstract goals. For example, the goal of maintaining or enhancing the financial well-being and operational strengths of federal credit unions could be defined with a specific objective, such as to increase to X percent the percentage of all federal credit unions examined that meet NCUA financial and operational standards by the end of 1999.

Second, 10 of the 43 performance targets in NCUA's measures for 1999 are set at lower performance levels than actual performance in 1996, the last year for which actual performance data are available. (One of the 44 performance measures does not have a target or actual 1996 data.) For example, the 1999 goal is 3.5 percent for the ratio of federally insured credit unions that are CAMEL⁴ coded 4 or 5 (problem institutions) to the aggregate number of all federally insured credit unions. This is a lower performance level than the actual performance of 2.5 percent in 1996, and the plan provides no reason for setting lower targets.

Third, the plan provides tolerance ranges for 39 of the 43 measures with performance targets. According to NCUA officials we interviewed, the tolerance levels give managers flexibility in meeting the targets. However, the use of tolerance levels can

⁴CAMEL stands for capital, asset quality, management, earnings, and liquidity. Financial institutions are rated on these factors as part of safety and soundness examinations.

reduce annual performance expectations significantly, which is the case with 17 of the tolerance levels. For example, a tolerance level of plus or minus 1.0 percent in relation to the 1999 goal of 3.5 percent for the measure covering credit unions coded 4 or 5 considerably expands what is considered an acceptable percentage of credit unions identified with serious problems.

Fourth, many of the measures in NCUA's plan are output-oriented. NCUA has made an excellent start in addressing outcomes, with 20 of the measures more clearly identifying outcome information than outputs or processes. For example, the plan has measures to identify examinations that meet standards and the systems that are completely renovated for Year 2000 compliance. However, the other 24 measures describe the outputs of activities or processes. For example, many of the plan's measures are expressed in ratios that are based on outputs, such as the number of examinations completed. The shortcoming of this type of output measure is that it identifies completed activities or processes, not program results. In addition, such measures are highly weighted toward measuring the quantity of completed activities rather than the timeliness, quality, or cost of performance outcomes.

Fifth, the plan does not completely explain measures used for capturing performance for some performance goals, including measures that are more outcome-oriented. For example, one performance goal is to "reduce regulatory burden on the credit union system." The measure for this goal is "the number of regulations updated, clarified, and simplified that result in eliminating redundancy and unnecessary provisions." This measure does not define what constitutes redundant and unnecessary provisions. A more objective measure might be to record federal credit union statements of how well regulatory changes have reduced regulatory burden. In another example, NCUA's measure of the ratio of credit unions CAMEL coded 4 or 5 for less than 24 months compared to all credit unions coded 4 or 5 is indirectly linked to the performance goal of resolving major areas of concern in credit unions that have received these codes. While this measure is more outcome-oriented, an even better measure might be the percentage of credit unions with a CAMEL code of 4 or 5 that receive a code of 3 or less within a certain time of receiving the 4 or 5 coding. This would more clearly show to what extent credit unions that received a low CAMEL rating have improved their condition.

In addition, 8 of the plan's 17 performance goals are not fully measured. For example, one performance goal is to "streamline the processing of charters and fields of membership to allow access to federal credit union services." The measures for this performance goal are "the number of federal credit union members served" and "the number of new federal charters issued." The difficulty with this choice of measures is that the two do not readily measure the extent to which streamlining the processing of charters and fields of membership increased access to credit union services. The

number of members served and charters issued can depend on a number of other internal and external variables, such as processing time, staff availability, or demand for services. For this reason, more appropriate measures might identify increased access to federal credit union services that directly result from NCUA's efforts to streamline its processes. As stated, this performance goal is a strategy because it describes a process that supports performance goal achievement. A better performance goal might be to increase access to federal credit union services, stated as the percentage increase in members served or new federal charters issued in certain emphasized areas over a specific time period.

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. NCUA's performance plan relates its 6 strategic goals to its 17 performance goals. The performance goals encompass all of NCUA's program activities in the President's budget.

However, the plan could provide a more useful presentation for congressional decisionmakers in two ways. First, the performance goals do not establish objectives tailored to achieve each strategic goal. Five of the performance goals are broad statements that are essentially the same as the strategic goals in the strategic plan. For example, the strategic goal to "promote a system of financially sound, well managed federally chartered credit unions" is virtually the same as the performance goal to "maintain or enhance the financial well-being and operational strengths of federal credit unions." Likewise, the strategic goal to "ensure compliance with consumer regulations" is substantially the same as the performance goal to "ensure that credit union consumers get the benefits and protection afforded them by law and regulation."

Second, some performance goals are not sufficiently complete to fully address their corresponding strategic goals. For example, the plan has four performance goals intended to address the strategic goal to "responsibly manage the agency's human, financial, and technical resources." The performance goals cover human and technical resources, but not financial resources. Similarly, one of the two performance goals for the Community Development Program's strategic goal identifies technical assistance and revolving loans to low-income areas, but it is unclear how this goal promotes the additional availability of credit union financial services to other consumers, which is also the intent of the strategic goal.

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.⁵ NCUA's strategic plan references agency meetings with other financial regulators to discuss similar goals, objectives, and measures. However, the performance plan does not specifically discuss these efforts.

NCUA officials said that the agency is participating with a federal financial institution regulatory working group designed for that purpose.⁶ This effort, described in the agency's 1997-2002 strategic plan, should be included in the performance plan. In addition, the crosscutting efforts by the working group described in the strategic plan and by the NCUA officials during our interviews are limited to exploring ways to develop common processes and criteria for improving individual agency efforts. In this regard, Results Act guidance encourages agencies to develop common performance goals and measures for related programs.

NCUA'S PLAN SHOULD DISCUSS HOW STRATEGIES AND RESOURCES WILL HELP ACHIEVE NCUA GOALS

The Results Act requires that annual performance plans describe the strategies and resources the agency intends to use to achieve performance goals. Typically, strategies cover an agency's operational processes, skills, and technologies that will be used to achieve program goals. Resources cover capital, human, financial, and other resources. The NCUA plan meets some of the Results Act's requirements in describing strategies and resources, but could be strengthened by describing the skills needed to achieve performance goals, more fully discussing agency actions to address external factors, and providing information on the resources being applied to achieve each performance goal.

⁵OMB'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.

⁶The interagency working group is made up of representatives from the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, and NCUA.

Connecting Strategies to Results

The Results Act and its guidance requires that the performance plan should briefly describe the agency's strategies to accomplish its performance goals. In line with Results Act guidance, the NCUA plan has limited the number of performance goals that appear to be means or strategies for accomplishing performance goals and measures. However, the plan could better connect strategies to results. The plan has separate sections on the processes and technologies needed to accomplish each performance goal, but not on skills, the third element of strategies.

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 a discussion of such factors would provide additional context for NCUA performance.⁷ The NCUA plan incorporates a discussion of the Year 2000 factor in its performance goals. However, other factors described in the strategic plan are not specifically mentioned in the performance plan, including the U.S. economy, advances in technology, legal challenges, and potential legislation aimed at taxing credit unions.

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. The NCUA plan has a separate section on staffing and funding requirements for each strategic goal by program area. However, the resources section under each performance goal does not typically describe the capital, human, financial, or other resources being applied to achieve the performance goal. Instead, the plan's resource sections mostly describe processes, agency personnel categories, or offices that are involved with the work. For example, the resource section for the performance goal of providing prompt and effective examination report findings describes a process in which examiners consult with their supervisors on significant problems throughout the examination. Details are lacking on the number of current or planned examiners, supervisors, costs, or other resources needed to accomplish this performance goal.

NCUA'S PLAN SHOULD PROVIDE SUFFICIENT CONFIDENCE THAT PERFORMANCE INFORMATION WILL BE CREDIBLE

Results Act guidance states that performance plans should describe credible procedures to verify and validate the measured values of actual performance. The

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

plans should also identify significant data limitations and discuss how they or other factors affect the credibility of performance information. The NCUA plan discusses verification and validation of its performance information, but the discussion could be strengthened by including an external assessment of performance information. In addition, the plan does not address data limitations that might affect performance goals.

Verifying and Validating Performance

Results Act guidance states that the plan should describe credible procedures to verify and validate the measured values of actual performance. The agency should have in place procedures for ensuring that the data are free of significant levels of error and that bias is not introduced. These procedures can include internal controls over such matters as data collection, maintenance, and entry. The guidance also states that external assessments such as audits, evaluations, and peer reviews provide additional verification and validation procedures.

The NCUA plan includes a section on validation and verification of each measure, and it generally describes data collection processes for each measure. Data collection methods include those involving the collection of data from examinations, quality assurance reviews, supervisory reviews, reviews completed by various internal groups, standardized reports, and standardized databases. However, nearly all of the plan's performance measures rely on verification and validation procedures, performed internally by NCUA staff and management, that are largely dependent on the proper operation of internal control procedures. The plan could be strengthened through a discussion of any relevant external assessments of performance information, such as testing of NCUA internal control procedures or external reviews of NCUA internal controls involving financial statements.

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 them, to allow an assessment of the extent to which they are credible. The NCUA performance plan would be more useful if it discussed data limitations or potential problems with data obtained from internal sources (e.g., regional offices) or external sources (e.g., credit unions and their members or state credit union supervisory authorities).

Significant limitations may stem from inconsistencies in practices or interpretations followed by different NCUA regional offices, variations from one time period to another, or inconsistencies from one data source to another when data from more

than one source are combined to create a measure. For example, NCUA officials said that the agency's six regional offices interpret differently what performance data are needed. Since such differences or inconsistencies can significantly affect performance data credibility, the performance plan could be more useful if it described such differences or inconsistencies. With regard to external data, problems could arise from the differing systems of the various credit unions.

AGENCY COMMENTS AND OUR EVALUATION

We provided NCUA officials with a draft of our observations and met with them on July 16, 1998, to discuss our observations and obtain their comments. In addition, we provided the officials with a draft of this letter for comment. The officials were in general agreement with our observations. They said that NCUA recently hired a strategic planner, and that they anticipated that the agency's next annual performance plan would be substantially more results-oriented. In addition, they said that NCUA plans to integrate its performance goals dealing with human, financial, and technical resources with its program performance goals.

Regarding particular observations, the officials acknowledged the difficulty of developing performance goals that incorporate major goals but are not too specific. In addition, the officials agreed with our comments on the problems with tolerance levels, noting that they too have identified the shortcomings in using them. They said that the tolerance levels might be replaced by expanding the plan's coverage of external factors, which could provide some context if performance goals were not met. Finally, one official said that, with regard to examinations, NCUA is working with the other financial institution regulators, and that while it may take a year or two to complete, the regulators' ultimate aim is to develop common goals and measures. NCUA's change of emphasis from output to outcome measures will also affect these efforts.

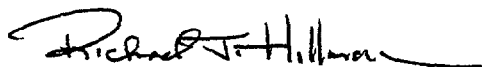
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We are sending copies of this letter to the Chairman and Ranking Minority Member of the House Committee on Banking and Financial Services and to the Director, Office of Management and Budget. We will also make copies available to others on request.

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

Sincerely yours,

A handwritten signature in black ink, appearing to read "Richard J. Hillman", with a long horizontal flourish extending to the right.

Richard J. Hillman
Associate Director, Financial Institutions
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Enclosure

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RELATED GAO PRODUCTS

Managing for Results: Experiences of Selected Credit Programs (GAO/GGD-98-41, Feb. 19, 1998).

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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