Office of Inspector General

March 2005
Report No. 05-012

Division of Supervision and Consumer Protection's Process for Identifying Current and Future Skill and Competency Requirements

EVALUATION REPORT

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Background and Purpose of Evaluation

In January 2001, and again in January 2003, the U.S. Government Accountability Office (GAO) identified strategic human capital management as a government-wide, high-risk area.

The FDIC has acknowledged, like many agencies, that it is confronting human capital issues, including how to provide maximum flexibilities for managers to attract, develop, evaluate, reward, and retain a high-quality workforce and to manage succession effectively and efficiently as workload demands change. Accordingly, the FDIC is developing a human capital framework to help ensure the readiness of its staff to carry out the Corporation's mission and recognizes the need to engage in effective workforce planning.

We reviewed the Division of Supervision and Consumer Protection (DSC) because it accounts for more than one-half of all FDIC employees and because it is a primary business line responsible for ensuring the safety and soundness of insured financial institutions and for protecting consumers' rights.

Our objectives were to assess DSC's efforts to: (1) determine critical skills and competencies needed to achieve current and future corporate goals and objectives, (2) identify gaps in skills and competencies that need to be addressed, and (3) develop strategies to address current gaps in skills and competencies and future workforce needs.

We used Office of Personnel Management (OPM) and GAO guidance to evaluate DSC's workforce planning efforts.

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Results of Evaluation

DSC is engaging in workforce planning activities consistent with OPM and GAO guidance. Nevertheless, more work is needed to finalize and communicate DSC's workforce planning efforts to DSC employees and to all corporate managers.

Key Workforce Planning Principle and DSC Efforts Underway	Additional Work to be Done
Set Strategic Direction, and Ensure Alignment of Workforce Planning Efforts: DSC's workforce planning efforts are aligned with the Corporation's strategic direction, and DSC is drafting a Long Term Staffing Strategy to describe current staffing practices and future staffing goals.	DSC's staffing strategy is in draft form. DSC needs to incorporate the new Corporate Employee Program (a new program to encourage employees to develop competency in multiple FDIC business lines) into the staffing strategy and finalize and communicate the staffing strategy to DSC employees and other corporate managers.
Identify Existing Workforce, and Assess Staffing Needs: DSC maintains existing workforce data to make short-term staffing decisions and to assess future workforce trends. DSC is developing a National Staffing Model that DSC plans to use in forecasting staffing needs.	DSC's staffing model is also in draft form. DSC needs to validate that the model yields accurate results and determine how the model will be used under the Corporation's existing planning and budgeting process.
Determine Critical Skills and Competencies Needed, and Identify Gaps: DSC is actively engaged in activities to determine the critical skills and competencies needed to achieve current and future goals and objectives and to determine existing and future skills gaps.	DSC has not performed a formal skills assessment to identify whether and where competencies gaps exist. However, regional and field office managers generally have an understanding of assigned employees' skills and abilities. DSC needs to determine if a formal skills assessment is needed.
Develop Strategies for Addressing Gaps: DSC is developing and has employed workforce strategies to address identified gaps, and its efforts are aligned with broader corporate human capital goals.	DSC, and the Corporation as a whole, does not have a centralized competencies and skills repository for DSC employees. The FDIC needs to assess whether an existing training system could be enhanced to serve as a corporate competencies repository.
Monitor and Evaluate Progress: DSC has several mechanisms for monitoring and evaluating the success of its workforce-related initiatives.	DSC's Long Term Staffing Strategy does not adequately address how DSC will monitor and evaluate the success of its workforce planning initiatives. DSC needs to define, within the staffing strategy, how existing evaluation mechanisms interrelate and how the success of its various workforce planning initiatives will be measured.

While workforce planning is a fundamental component of DSC's overall management process, DSC will need to ensure that its workforce planning strategy and initiatives fit into the FDIC's corporate workforce plan. In this regard, the FDIC's Division of Administration plans to issue guidance that FDIC divisions and offices can use to facilitate workforce planning efforts.

DSC generally concurred with our five report recommendations that correspond to each key principle listed above to enhance DSC's workforce planning efforts.

Federal Deposit Insurance Corporation
801 17th Street NW, Washington, DC 20434

Office of Audits
Office of Inspector General

DATE: March 18, 2005

MEMORANDUM TO: Michael J. Zamorski, Director
Division of Supervision and Consumer Protection

FROM: Russell A. Rau [Electronically produced version; original signed by Russell A. Rau]
Assistant Inspector General for Audits

SUBJECT: *Division of Supervision and Consumer Protection's Process for Identifying Current and Future Skill and Competency Requirements*
(Report No. 05-012)

The subject final report is provided for your information and use. Please refer to the Executive Summary for the overall evaluation results. Our evaluation of your response is incorporated into the body of the report, and your response is included, in its entirety, as an appendix to the report.

Your response adequately addressed the five recommendations to the Division of Supervision and Consumer Protection. The five recommendations are considered resolved, but they will remain undispositioned and open for reporting purposes until we determine that the agreed-to corrective actions have been implemented and are effective.

If you have questions concerning the report, please contact Stephen M. Beard, Deputy Assistant Inspector General for Audits, at (202) 416-4217, or Marshall Gentry, Director, Corporate Evaluations, at (202) 416-2919. We appreciate the courtesies extended to the evaluation staff.

Attachment

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Acronyms

ARD	Assistant Regional Director
ARIS	Automated Regional Information System
BSA	Bank Secrecy Act
CEP	Corporate Employee Program
CHRIS	Corporate Human Resources Information System
COO	Chief Operating Officer
DIR	Division of Insurance and Research
DIT	Division of Information Technology
DOA	Division of Administration
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
DSC	Division of Supervision and Consumer Protection
ECEP	Examiner Continuing Education Program
EEO	Equal Employment Opportunity
FAO	Government Accountability Office
FDIC	Federal Deposit Insurance Corporation
FOMIS	Field Office Management Information System
GAO	Government Accountability Office
GS	General Schedule
HRC	Human Resources Committee
IS	Information System
IT	Information Technology
MERIT	Maximum Efficiency Risk-Focused Institution Targeted
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RDM	Regional Directors Memorandum
ROPES	Review of Promotion, Evaluation, and Selection Project
SES	Senior Executive Service
SME	Subject Matter Expert
SQRA	Senior Quantitative Risk Analyst
ViSION	Virtual Supervisory Information on the Net

Results in Brief

WHY WE DID THIS EVALUATION

Last year, we reported that the Federal Deposit Insurance Corporation's (FDIC) overall human capital framework addressed the underlying human capital concepts that the Office of Personnel Management (OPM), Office of Management and Budget (OMB), and the U.S. Government Accountability Office (GAO) consider vital to successful human capital management. Our 2004 evaluation[1] focused on the FDIC's broad human capital framework; this evaluation focuses on workforce planning in one of the FDIC's business line divisions, the Division of Supervision and Consumer Protection (DSC), which is responsible for examining and supervising insured financial institutions to ensure they operate in a safe and sound manner, that consumers' rights are protected, and that FDIC-supervised institutions invest in their communities.

EVALUATION OBJECTIVE AND APPROACH

The objective of this evaluation was to assess DSC's efforts to:

- determine critical skills and competencies needed to achieve current and future corporate goals and objectives,
- identify gaps in skills and competencies that need to be addressed, and
- develop strategies to address current gaps in skills and competencies and future workforce needs.

We used the OPM's Workforce Planning Model and GAO guidance to evaluate DSC's workforce planning efforts. Our evaluation did not include assessing the FDIC's overall workforce planning process other than to gain a basic understanding of the corporate process and a perspective of DSC's activities relative to corporate-wide initiatives. Additionally, our evaluation did not include assessing the appropriateness of DSC's decisions resulting from its workforce planning efforts. We evaluated DSC's workforce planning process and activities as of November 30, 2004. Appendix I describes our objective, scope, and methodology in detail.

WHAT WE FOUND

DSC is engaging in workforce planning activities consistent with OPM and GAO guidance. Nevertheless, more work is needed to finalize and communicate DSC's workforce planning efforts to DSC employees and to corporate managers. Table 1 presents the key principles of workforce planning that we identified based on our review of GAO and OPM guidance, DSC's efforts to implement those principles, and our findings on work remaining to be done.

As we reported in 2004, the Corporation, as a whole, lacks a human capital blueprint but is working on developing such a document.[2] The FDIC's Division of Administration (DOA) also plans to issue guidance that divisions and offices can use to facilitate workforce planning efforts. Accordingly, while workforce planning is a fundamental component of DSC's overall

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[1] Evaluation Report 04-005, *The FDIC's Strategic Alignment of Human Capital*, dated January 23, 2004.
[2] Report 04-005 recommended that FDIC develop a human capital blueprint to delineate roles and responsibilities for human capital, communicate goals and strategies to stakeholders, define performance measures, and establish a process for monitoring and reporting on the effectiveness of human capital initiatives.

management process, DSC will need to ensure that its workforce planning strategy and initiatives fit into the FDIC's corporate workforce plan.

Table 1: Summary of Evaluation Results

Key Principle	DSC Efforts Underway	Additional Work to be Done
Set Strategic Direction, and Ensure Alignment of Workforce Planning Efforts.	DSC's workforce planning efforts are aligned with the Corporation's strategic direction, and DSC is drafting a Long Term Staffing Strategy to describe current staffing practices and future staffing goals.	DSC's staffing strategy is in draft form. DSC needs to incorporate the new Corporate Employee Program[a] into the staffing strategy, finalize the staffing strategy, and communicate the staffing strategy to DSC employees and all corporate managers.
Identify Existing Workforce, and Assess Staffing Needs.	DSC maintains existing workforce data to make short-term staffing decisions and to assess future workforce trends. DSC is developing a National Staffing Model that DSC plans to use in forecasting staffing needs over 3-year periods.	DSC's staffing model is also in draft form. DSC needs to validate that the model yields accurate results and determine how the model will be used under the Corporation's baseline, or top-down, planning and budgeting process.
Determine Critical Skills and Competencies Needed to Achieve Current and Future Goals and Objectives, and Identify Skills and Competencies Gaps.	DSC is actively engaged in activities to determine the critical skills and competencies needed to achieve current and future goals and objectives and to determine existing and future skills gaps.	DSC has not performed a formal skills assessment to identify whether and where competencies gaps exist. Notwithstanding, regional and field office managers generally have an understanding of assigned employees' skills and abilities. DSC needs to determine if a formal skills assessment is needed.
Develop Strategies for Addressing Gaps.	DSC is developing workforce strategies to address identified gaps, and its efforts are aligned with broader corporate human capital goals. Strategies include: • The Examiner Training Program and • DSC's participation in the Corporate Recruitment Program. DSC employed these strategies to address identified gaps related to the implementation of Basel II and Bank Secrecy Act compliance.[b]	DSC, and the Corporation as a whole, does not have a centralized competencies and skills repository for DSC employees. The FDIC's move to develop "corporate employees" who possess competencies in multiple business lines will only increase the need for a corporate skills repository. The FDIC's existing training database could be enhanced to serve as a corporate competencies repository.
Monitor and Evaluate Progress.	DSC has several mechanisms, such as divisional initiatives in support of the FDIC Chairman's corporate performance objectives, training and recruiting oversight entities, and the DSC Scorecard, for monitoring and evaluating the success of its workforce-related initiatives.	DSC's Long Term Staffing Strategy does not adequately address how DSC will monitor and evaluate the success of its workforce planning initiatives. While the FDIC and DSC have a number of mechanisms to monitor and measure success of corporate programs, DSC needs to define, within the staffing strategy, how these mechanisms interrelate and how the success of its various workforce planning initiatives will be measured.

Source: OIG Analysis.
(a) The Corporate Employee Program is a new program to encourage and reward employees for pursuing cross-divisional opportunities and developing competency in multiple FDIC business lines.
(b) Basel II and Bank Secrecy Act are defined on page 15 of this report.

Our report contains five recommendations corresponding to each key principle to enhance DSC's workforce planning efforts.

Background

In January 2001, and again in January 2003, the GAO identified strategic human capital management as a government-wide, high-risk area because of the lack of attention to human capital management. Specifically, GAO has reported that in the wake of extensive downsizing during the early 1990s, done largely without sufficient consideration of the strategic consequences, agencies are experiencing significant challenges to deploying the right skills, in the right places, at the right time.

Agencies are also facing a growing number of employees who are eligible for retirement and are finding it difficult to fill certain mission-critical jobs—a situation that could significantly drain agencies' institutional knowledge. Other factors such as emerging security threats, rapidly evolving technology, and dramatic shifts in the age and composition of the overall population exacerbate the problem. Such factors increase the need for agencies to engage in strategic workforce planning to transform their workforces so that they will be effective in the 21st century.

What is workforce planning?

Workforce planning is an important activity that will enable agencies to:

- Determine the workforce needed for tomorrow's success.
- Compete in today's market, providing a foundation to actively train, recruit or restructure resources.
- Bridge knowledge gaps due to attrition.
- Achieve maximum organizational effectiveness.
- Take all of the separate initiatives out of the stovepipes and put them in an integrated whole as part of an overall plan.

Benefits to the organization:

- Workforce planning is an organizational development activity that will help us get the right people at the right place at the right time.

Benefits to managers:

- Managers will have the human resource information they need to manage their programs more effectively.

Source: OPM Workforce Planning Desk Aid.

Key Steps for Effective Strategic Workforce Planning

There are a number of models for conducting workforce planning. For example, in 1999, OPM published a five-step model that suggests agencies should:

- define a strategic direction,
- assess the current and future workforce,
- develop an action plan,
- implement action plans for closing identified gaps in future workforce needs, and
- monitor and evaluate the effectiveness of the workforce action plan.

In October 2002, OPM released a *Human Capital Assessment and Accountability Framework* that expands on and integrates previous guidance on workforce planning, such as the 1999 model. According to the OPM framework, an agency should have an explicit workforce planning strategy that is linked to the agency's strategic and program planning efforts to identify its current and future human capital needs, including:

- the size of the workforce,
- workforce deployment across the organization, and
- competencies needed for the agency to fulfill its mission.

In December 2003, GAO identified the following five key principles for effective strategic workforce planning:

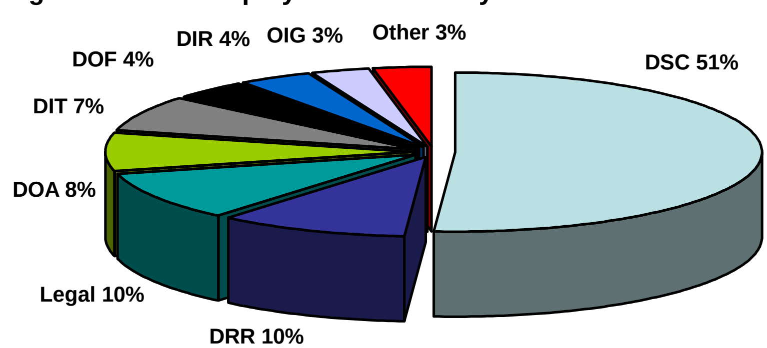
- Involve top management, employees, and other stakeholders in developing, communicating, and implementing the strategic workforce plan.
- Determine the critical skills and competencies that will be needed to achieve current and future programmatic results.
- Develop strategies that are tailored to address gaps in number, deployment, and alignment of human capital approaches for enabling and sustaining the contributions of all critical skills and competencies.
- Build the capability needed to address administrative, educational, and other requirements important to support workforce planning strategies.
- Monitor and evaluate the agency's progress toward human capital goals and the contribution that human capital results have made toward achieving programmatic results.

Workforce Challenges Identified by the FDIC

The Corporation has acknowledged, as have many agencies, that it is confronting human capital issues, including how to provide maximum flexibilities for managers to attract, develop, evaluate, reward, and retain a high-quality workforce and to manage succession effectively and efficiently as workload demands change in the future. Indeed, the FDIC has reported that in the next 5 years, more than 20 percent of current permanent employees will become eligible to retire, including many of the FDIC's most experienced managers and technical experts. The FDIC has stated that this will require strategies for replacing these essential human resources and the expertise that may be lost through retirements. The FDIC has also announced downsizing and/or transformation initiatives for several divisions. Accordingly, the Corporation's Division of Administration (DOA) is developing a human capital framework to help ensure the readiness of its staff to carry out the corporate mission and recognizes the need to engage in effective workforce planning.

DSC staffing is a major component of the FDIC's annual budget, and DSC has reported that it is in the best interest of the division and the Corporation to have a clear and coherent staffing strategy for DSC that will enable the organization to plan for and respond to future events and contingencies. DSC staffing accounts for 51 percent of the FDIC's workforce as shown in Figure 1.

Figure 1: FDIC Employment Shares by Division



Source: Corporate Human Resources Information System

Workforce Planning for the Future

As part of the 2005 planning and budget formulation process, senior management held strategic discussions on how the Corporation will conduct its supervision, insurance, and receivership management functions over the next 3 to 5 years. In August 2004, the Deputy to the Chairman and Chief Operating Officer (COO) issued a memorandum entitled, **"***Workforce Planning for the Future,***"** which described the preliminary conclusions about the Corporation's future business model and workforce profile. Demands placed on the Corporation by rapidly changing external and internal factors will require effective means for addressing any resource imbalances with minimal disruption to employees and managers.

Preliminary Conclusions on the FDIC's Future Business Model

- Industry consolidation will continue to decrease the aggregate number of insured depository institutions for which we are the primary federal supervisor.
- Concentration of risk to the insurance funds in the largest banking organizations (largely supervised by other regulators) will grow more pronounced over time.
- A two-tiered banking system (mega/large vs. small/community) appears likely to emerge, which may have operational implications for all of our business lines.
- Growing complexities within the industry will require a more integrated, corporate approach to risk assessment and risk mitigation.
- The use of technology will continue to improve operational efficiency within both the banking industry and the FDIC.
- Most existing skill sets within the FDIC will remain relevant to our future work, but will have to be augmented by new skill sets not now available in our workforce.
- The FDIC of the future will be a smaller, more flexible agency.

Source: Chief Operating Officer's August 6, 2004 E-mail to the Corporation.

The preliminary conclusions reflect the continuation of trends that have been ongoing for several years. The COO stated that change has become the one constant, and the speed with which significant changes are occurring within the industry makes it essential that the FDIC have increased flexibility to respond rapidly to changes in order to accomplish its core mission.

To assess the implications of the preliminary conclusions outlined above, the COO asked each of the three business line divisions[3] to complete the following steps:

- review business-line workload assumptions and expected future business processes;
- identify the skill sets necessary to meet our mission going forward, based on these assumptions and expected future business processes;
- conduct an analysis of existing skill sets and compare them to future skill requirements;
- design staffing strategies to close any gaps between existing and required skill sets; and
- develop succession management plans for an orderly transition of knowledge to future corporate leaders.

These steps are consistent with the fundamental principles of workforce planning and are those steps that DSC is or will be addressing.

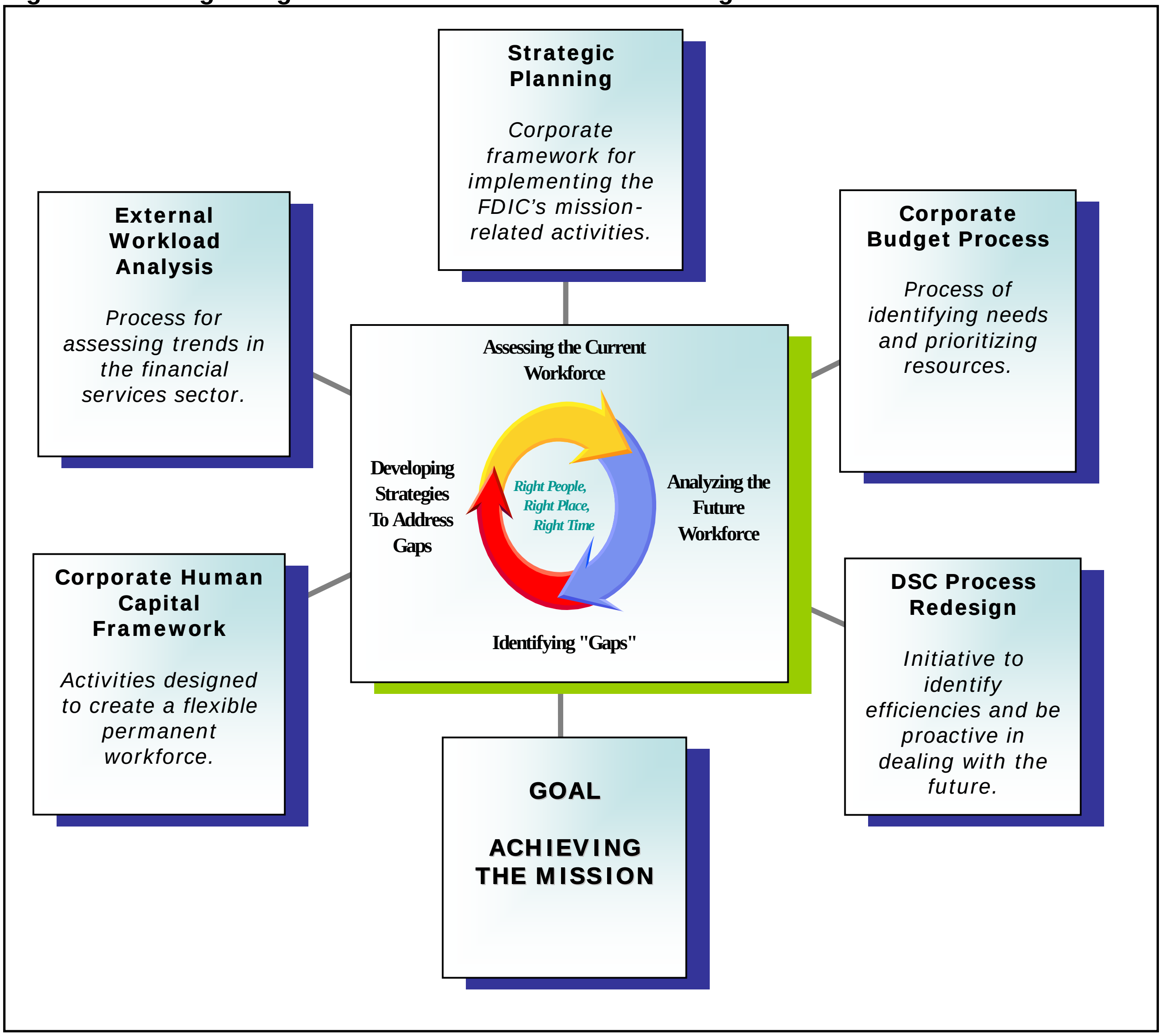
[3] The three business line divisions are DSC, the Division of Insurance and Research (DIR), and the Division of Resolutions and Receiverships (DRR).

Evaluation Results

Strategic Direction and Alignment of Workforce Planning Efforts

The Corporation's strategic vision has been influenced by the pace and scope of industry changes. Accordingly, over the past several years, DSC has been reshaping its workforce to respond to the trends in the financial services sector and ensure that resources are positioned to work effectively and efficiently and are directed to areas of the greatest risks. Figure 2 illustrates the strategic alignment of DSC's workforce planning process, which aims at effectively deploying resources to areas of greatest risk.

Figure 2: Strategic Alignment of DSC's Workforce Planning Process



Source: OIG analysis of Corporate and DSC planning processes.

Strategic alignment of DSC's workforce planning process is largely achieved by participation in the annual corporate planning process, ongoing involvement with the FDIC's Human Resources Committee (HRC); and through DSC-structured process redesign efforts.

According to OPM's Human Capital Standards, an agency should approach workforce planning strategically, basing decisions on mission needs and customer expectations, workload factors, and workforce capabilities. OPM identified these key indicators related to strategic workforce planning:

- Must be an ongoing process.
- Must be a structured and deliberate effort.
- Recognizes thinking strategically about the future and how to get there, including questioning fundamental assumptions about how work is done and who should do it.
- Includes not only senior managers, but all employees in the effort.
- Includes the full spectrum of actions and activities from aligning the organization behind clear long-term goals to putting in place organizational and personal incentives, allocating resources, and developing the workforce to achieve the desired outcomes.

Moreover, GAO has reported that successful strategic workforce planning requires: (1) top agency management to set the overall direction and goals of workforce planning, (2) the involvement of employees and other stakeholders in developing and implementing future workforce strategies, and (3) the development of a communication strategy to create shared expectations, promote transparency, and report progress.[4]

Integration With Planning and Budgeting Process

We reported in 2004 that the FDIC has integrated its strategic human capital framework into the FDIC's overall corporate planning process.[5] In brief, the FDIC uses an integrated planning process whereby guidance and direction are provided by senior management and developed with input from program personnel. DSC staffing requirements are fundamentally driven by statutory examination requirements for safety and soundness and community reinvestment, compliance examination frequency policy, and the general condition of the banking industry. DSC's workforce planning efforts are directed from DSC headquarters and consider regional office input.

DSC resource requirements are identified through the planning and budgeting process that engages the Corporation's staff and senior managers each year in a review of projected workload, planned information technology, proposed annual performance objectives, and other divisional initiatives. Business requirements, industry information, human capital, technology and financial data are considered in preparing annual performance

DSC Mission Statement

Promote stability and public confidence in the nation's financial system by:

- **examining and supervising insured financial institutions to ensure they operate in a safe and sound manner, that consumers' rights are protected, and that FDIC-supervised institutions invest in their communities and**

- **providing timely and accurate deposit insurance information to financial institutions and the public.**

Source: DSC Web Site.

[4] GAO-04-39, *Human Capital Key Principles for Effective Strategic Workforce Planning*, dated December 2003.
[5] OIG Report No. 04-005, *The FDIC's Strategic Alignment of Human Capital*, dated January 23, 2004.

plans and budgets. Factors influencing the FDIC's plans include changes in the financial institution industry, program evaluations and other management studies, and prior-period performance.

Human Resources Committee

In addition to the annual corporate planning process, the FDIC's HRC has become a key element of the Corporation's human capital planning framework and is responsible for developing an integrated, comprehensive approach to human capital issues. The HRC is composed of Deputy Directors from each of the FDIC's driver and support divisions. The HRC meets for several hours each week and serves as a corporate clearinghouse for human capital issues. Specifically, the HRC provides strategic direction and leadership for workforce planning at the corporate level and is responsible for developing policy recommendations and monitoring the implementation of human resources initiatives. Policy recommendations are vetted among the committee members who share information with their respective division directors and are typically developed through consensus and are generally discussed with the COO, Chief Financial Officer, and the Deputy to the Chairman. The DSC Deputy Director, Strategic Planning, Budget, Reporting and Special Projects, is one of the HRC members; her participation on the HRC helps to ensure that DSC's workforce planning efforts are aligned with the corporate-level human capital framework.

Process Redesign Efforts

Consistent with the corporate strategy, DSC is positioning its workforce to reflect the trends in the financial services sector toward larger, more complex financial institutions. In 2000, the DSC Director began the first in a series of structured process redesigns to proactively prepare for the future as well as examine existing processes to improve efficiency. Table 2 summarizes the process redesign efforts undertaken since 2000 under the direction of the current DSC Director.

Table 2: Summary of DSC Process Redesign Efforts

Initiative*	Purpose
I	Comprehensive review of entire approach to completing examinations.
II	Reviewed ways to focus examination efforts on institutions that needed the most attention and reduce the time and effort on institutions that were doing well and did not need as much oversight.
III	To continue increasing operational efficiency by empowering frontline managers.
IV	To evaluate, review and revise DSC's field examination policies and practices.

Source: OIG Analysis.
*In the late 1990s, the former Division of Supervision created a "redesign" committee that focused on how work was performed in the regional and headquarters offices. The case manager program (defined on page 14) was created as a result of that effort.

DSC's process redesign efforts are consistent with the FDIC's broad corporate goal of more effectively supervising and serving a rapidly changing banking industry. Process redesign efforts have also resulted in re-delegations of authority related to actions such as signature of examination reports at the field-office- rather than regional-office-level. Such re-delegation efforts are consistent with OPM and GAO workforce planning suggestions. Employees from across the division and Corporation have been participants in the various redesign efforts. In a memorandum dated August 2004 to DSC employees, the Director, DSC, acknowledged that the division would continue positioning its workforce to reflect banking industry trends but noted that DSC's strategic efforts have been undertaken without compromising its core principles of on-site bank supervision and compliance and consumer protection responsibilities and programs.

Long Term Staffing Strategy

In October 2003, DSC began developing a Long Term Staffing Strategy (staffing strategy) that outlines past and current DSC staffing practices and goals and strategies for field, regional, and headquarters staffing. DSC officials characterized the staffing strategy as a first attempt to comprehensively document DSC's process for assessing the composition of staffing. The staffing strategy is a result of an analysis of past and current DSC staffing practices and provides a perspective on statutory requirements and future challenges presented from inherent fluctuations in examination schedules, emerging issues affecting future skills present at the time the strategy was formulated, and factors DSC has identified as necessary components of its future staffing equation (nature of examinations, reduced volume of examinations due to consolidation of financial institutions, and duration of examinations). The staffing strategy raises issues for consideration, including hiring and recruitment and training and makes recommendations for further review of these areas.

DSC Staffing Goals

1. Be sufficient to accomplish mission.
2. Have direct linkage to workload drivers within the Division.
3. Allow flexibility to manage staffing resources.
4. Normalize peak workloads.
5. Achieve better efficiency in managing human resources.
6. Encourage cross-training.
7. Achieve transparency.
8. Replenish human capital.

Source: DSC's Long Term Staffing Strategy dated October 2003.

DSC officials are currently working to update the staffing strategy. DSC outlined several staffing goals for aligning staffing with mission-related requirements and corporate goals, which are consistent with OPM and GAO workforce planning guidance. However, the staffing strategy needs to be finalized and communicated to DSC employees and DSC corporate managers. As discussed later in this report, the COO initiated a new Corporate Employee Program (CEP) in October 2004 to cross-train selected FDIC employees in multiple FDIC business lines. DSC representatives indicated the staffing strategy will need to be revised to reflect the new CEP.

Recommendation

1. We recommend that the Director, DSC, incorporate discussion of the new Corporate Employee Program into the staffing strategy, finalize the staffing strategy, and communicate the staffing strategy to DSC employees and all DSC corporate managers.

Identifying Existing Workforce and Assessing Staffing Needs

DSC has processes in place for periodically analyzing its current workforce to identify key functions supporting its mission, assess the skills and competencies necessary to meet its mission, and determine the size of the workforce and its deployment across the organization. Specifically, DSC collects data to identify the current workforce components, emerging risk to the banking industry, and environmental risk that affect DSC's workload and future human capital needs. DSC uses the data to make short-term staffing decisions and to assess future workforce trends. DSC is also working to develop a National Staffing Model that can be used to forecast staffing needs.

As part of workforce planning, OPM and GAO guidance suggests that agencies perform periodic analysis of workforce demographics, including indicators such as size; distribution of workforce by grade/series/geographic locations; types of positions occupied; pay plan; veteran, gender, race, and national origin representation; and average age and grade. Staffing data showing trends in appointments, promotions, conversions, separations, and retirements should be analyzed regularly, and decisions should be based on documented data.

DSC has engaged in workforce planning for many years to ensure that it has enough examiners, in the right place, with the appropriate level of experience, to carry out is statutory mission-related requirements. For example, determining the current resources and workload and assessing projected resources and workload are a fundamental part of managing DSC's responsibilities with regard to safety and soundness and compliance examinations. In addition, DSC has routinely factored industry trend analysis data from DIR into DSC's workload assessments.

DSC has also documented, in the staffing strategy, assumptions related to employee attrition, promotion time frames, and recruiting. The staffing strategy also includes targets related to the ratios of examiners to managers in regional and field offices.

Systems for Identifying Staffing Needs

DSC relies on various systems and scheduling tools to capture critical data on its existing workforce and projected workload, including information about attrition and experience level of staff. Also, DSC maintains a list of commissioned bank examiners in the field offices for the purpose of scheduling bank examinations to ensure the appropriate level of skills for each bank examination. Table 3 identifies some of the systems used by DSC in workforce planning.

Table 3: Systems Used by DSC in Workforce Planning

System	Relationship to Workforce Planning
Corporate Human Resources Information System (CHRIS)	CHRIS contains employee-specific information.
Field Office Management Information System (FOMIS)	FOMIS contains a schedule of statutory bank examinations (examinations required by laws and regulations) and is an interactive scheduling tool that estimates examiner resources required for the exam.
Automated Regional Information System (ARIS)	ARIS contains automated scheduling and review aspects and can be searched using desired criteria or reviewed and sorted by Assistant Regional Director (ARD), case manager, or field office.
Virtual Supervisory Information on the Net (ViSION)	ViSION provides the status of examinations in progress.

Source: OIG analysis.

For example, information from CHRIS includes position description, grade level, and retirement eligibility information. CHRIS data is also used by DSC headquarters to identify occupied positions. FOMIS identifies required bank examinations for 5 years along with the number of estimated hours to complete an examination. By looking at the schedule of statutory bank examinations in FOMIS, regional officials and field supervisors can estimate the workload of bank examinations, including the dates of the examinations and the number of hours needed to complete the examinations. However, statutory workload is not static and differs based on frequently changing bank circumstances (e.g., amount of deposits, emerging issues, etc). FOMIS provides limited information to regional officials and the field supervisor who makes assumptions, based on historical knowledge or reported emerging issues, about the number of examiners and the skills needed for the examination.

With regard to the deployment of staff, the regions have the autonomy to assign staff as deemed necessary. For example, regional offices can deploy employees from one field office to another. The field offices make their own staffing decisions, but each ARD is responsible for overseeing staffing decisions. Regional officials stated that they will contact counterparts in other regions to request assistance should short-term staffing needs arise. Generally, officials stated that short-term staffing needs can be accommodated informally among the regions. Longer-term staffing trends are monitored and evaluated as part of the annual corporate planning process to determine whether there is a need to permanently adjust staffing levels.

DSC National Staffing Model

DSC began developing a National Staffing Model (model) in 2003. DSC intends for the model to be a transparent and reliable forecasting tool to quantify the many variables that contribute to DSC's staffing needs for risk management and compliance examiners, including savings from the Maximum Efficiency Risk-focused Institution Targeted (MERIT) examination process and other risk-focusing initiatives for examinations. DSC's strategy for managing human resources and realizing efficiencies gained from risk-focusing initiatives includes adhering to the ranges provided by the model. Management of vacancies will also be guided by the model. The model does not estimate DSC headquarters or regional office staffing needs.

The model captures, for a 3-year period, a range of appropriate staffing. Variables include:

- industry consolidation trends;
- the number of problem institutions;
- attrition and hiring forecasts;
- contingencies, including shortfalls in state examination agreements;
- new divisional or corporate initiatives;
- hour utilization estimates;
- supervisory time commitments; and
- percentage of hours achieved for corporate performance goals.

DSC's staffing strategy notes that the staffing range provided by the model is a general guideline for managing the level of full-time employees throughout the 3-year period and grants flexibility to manage staffing through normal fluctuations that occur over time. The staffing strategy also notes that the model should be validated semiannually in conjunction with the six DSC regions. DSC has also developed regional staffing models that follow the same format as the National Staffing Model but utilize variables tailored to each region—such as regional attrition and industry consolidation trends—to generate a range of appropriate regional staffing. Results from the six regional models will serve as validation of the National Staffing Model.

DSC has submitted the model to the Division of Finance (DOF) for review. A DOF official verified that DOF had reviewed the model, but noted that the model did not reflect DSC changes to the MERIT program and that DOF would resume its review of the model once it reflects those changes. The DOF official also noted that the model may need to be revised to address other changes in DSC processes, such as the relationship manager program, a pilot program to enhance the effectiveness of the examination process by allowing greater flexibility in the timing and scope of examination activities. The official noted that DOF supported the continued development and eventual use of the model.

We evaluated the model and concluded that it did not produce a range of results consistent with DSC's current authorized staff. DSC representatives acknowledged that the model still needs to be validated to ensure that it delivers accurate results and that the model was not being used for budget and planning purposes. The model is an important element in determining DSC staffing needs and is consistent with GAO workforce planning guidance.

Recommendation

2. We recommend that the Director, DSC, validate the National Staffing Model to ensure that it yields accurate results, and begin using the model to estimate staffing needs.

Determining Critical Skills and Competencies Needed to Achieve Current and Future Goals and Objectives and Identifying Skills and Competencies Gaps

DSC has taken steps to define the critical skills and competencies required of its general and specialty examiner workforce necessary to achieve corporate goals and objectives and to stay abreast of rapid changes in the banking industry. In addition to position descriptions and a well-defined examiner career path, DSC has developed benchmarks articulating desired skills inventories by grade level for its risk management and compliance examiners. DSC has also defined, in detailed position descriptions, the principal duties and responsibilities for case managers and specialty examiners, such as information technology, trust, large bank, and fair lending examiners. DSC is also working to identify new skills requirements and depth of competencies needed to implement the FDIC's emerging business model and to respond to future changes in the banking industry. Although DSC has not performed a formal, comprehensive skills assessment to identify competency and skills gaps, we concluded that DSC regional management typically has an understanding of the skills and abilities of its regional and field office staff, either through the regimented examiner commissioning process or through knowledge of subject matter experts occupying specialty examiner positions.

Key principles in workforce planning include the determination of critical skills and competencies. Competencies are descriptions of the skills and behaviors needed by staff members and managers to effectively contribute to the overall mission and goals of the organization. GAO has reported that the scope of agencies' efforts to identify the skills and competencies needed for their future workforces varies considerably, depending on the needs and interests of a particular agency. The most important consideration is that the skills and competencies identified are clearly linked to the agency's mission and long-term goals developed during the strategic planning process. Analysis of gaps between skills and competencies currently needed and those that will be needed is critical to mapping out the current condition of the workforce and deciding what needs to be done to ensure that the agency has the right mix of skills for the future. The lack of fact-based gap analysis can undermine an agency's efforts to identify and respond to current and emerging challenges.

Current Workforce Planning Efforts

DSC staffing is largely driven by statutory examination requirements, compliance examination frequency policy, and the general condition of the banking industry. For example, FDIC must perform safety and soundness examinations for favorably rated, well-capitalized institutions with less than $250 million in assets every 18 months. The FDIC also has alternating examination agreements with most state banking authorities to extend the FDIC examination cycle for favorably rated institutions to a maximum of 36 months. Specialty examinations, such as information technology (IT) and trust examinations, are generally performed concurrently with safety and soundness examinations.

DSC's detailed position descriptions for risk management, compliance, and specialty examiners, case managers and other positions define position duties, responsibilities, and knowledge required by the position. In addition, DSC has defined skill and competency requirements of certain positions through operational manuals and regional director memoranda and other position-benchmarking initiatives. As shown in Table 4, 78 percent of DSC regional and field staffing falls into the risk management and compliance examiner categories.

Table 4: Regional and Field Office Staffing Categories

Title/Position	Staff	Percent of Total
Management and Administrative	135	6
Risk Management Examiners	1,475	64
Compliance Examiners	319	14
Case Managers	157	7
Review Examiners	40	2
Other Specialists		
Information Technology Examiners	77	
Trust Examiners	25	
Financial Analysts	26	
Capital Markets	8	
Large Bank	8	
Fair Lending	6	
Miscellaneous	14	
Other Specialist - Subtotal	164	7
Total Field Staffing	**2,290**	**100**

Source: FDIC October 2004 Employee Counts.

<u>Risk Management and Compliance Examiners:</u> Mandatory requirements to perform supervisory and compliance bank examinations, the banking crisis of the 1990s, and the resulting changes to the banking industry influenced DSC to implement workforce planning practices, including the identification of future skills and competencies. DSC has defined competencies for its cadre of risk and compliance examiners through the Review of Promotion, Evaluation, and Selection Project (ROPES). ROPES consists of a set of matrices for risk management and compliance examiners that outlines the major job duties and responsibilities that a fully successful examiner at each grade level should be capable of performing. Figure 3 presents an excerpt from the ROPES project.

Figure 3: Excerpts from DSC's Review of Promotion, Evaluation, and Selection Project

RISK MANAGEMENT – GRADE 12		
TASK GROUPS (order of importance)	**BENCHMARKS and SUPPORTING TASKS**	**ACTIVITIES THAT MEASURE BENCHMARKS AND SUPPORTING TASKS**
Conducts On-Site (as appropriate)* Bank Examinations. ** Note: As the business practices of DSC evolve, more bank examination work may be performed at a site other than the bank.* *Note: Administrative tasks as identified in the "Performs administrative tasks, including maintaining records of work activities and hours of work" Task Group below are considered to be integral components of this Task Group. Employees are expected to demonstrate and maintain competency in all administrative functions related to this Task Group.*	**Evaluates the bank's management.** • Determines whether management is competent to manage the affairs of the bank (e.g., truthful and accurate). • Determines the bank's compliance with governing laws and regulations. • Assesses the accuracy of information provided to the board of directors. • Determines whether there are inappropriate insider/affiliate dealings. • Determines whether bank practices and procedures correspond with board-approved policies. • Determines adequacy and adherence to board of director approved policies. • Determines adherence to U.S.A. Patriot Act. • Evaluates management's ability and willingness to correct issues identified in formal or informal enforcement actions. • Assesses executive compensation programs for reasonableness, including deferred compensation and golden parachute agreements.	• Identifies potential violations and/or contraventions or internal policy exceptions, if applicable, and prepares evaluative comments in accordance with outstanding guidance. • Considers findings in the other components and specialty areas. • Identifies substantive issues (issues that warrant further research, management's attention, and/or notification to the board of directors). • Follows outstanding guidance regarding the evaluation of management (factors to consider) as outlined in the Manual of Examination Policies and other outstanding guidance. • Assigns an appropriate management rating as described in the Uniform Financial Institutions Rating System (UFIRS). • Prepares /maintains appropriate documentation to support conclusions. • Assesses board knowledge, oversight, and involvement in bank affairs.

Source: Regional Directors Memorandum (RDM) 2004-041, *Benchmarks for Compliance and Risk Management Examiners*.

As shown, the matrices consist of major task groups, supporting benchmarks, activities, and performance measures for each grade. The matrices are intended to be used as guidelines by managers, supervisors, and examiners to facilitate skill development and assessment. The matrices do not replace existing performance evaluation practices or promotion decision processes, but complement existing guidelines by clearly articulating desired skills inventories at each grade level.

Specialized Examiners: DSC continually evaluates industry changes to identify specialty skills and competencies needed to effectively examine increasingly complex financial institutions, develops and implements training programs to address the growing need for specialty examiners, and recruits examiners with specialty skills or experience not obtainable through in-house training. Regional and field office officials maintain records of examiners' specialty training and experience. These records serve as a repository of skills that can be used by field and regional offices as the need arises. Finally, DSC maintains, on the regional Web sites, a list of examiners with specialty skills for the purpose of sharing acquired specialty skills with other regions and field offices when skills and competencies are required but not yet fully developed or when additional skills and competencies are needed.

Case Managers: Case managers are the principal contacts and direct supervisory efforts for the largest, complex financial organizations. The case managers are responsible for assessing the risk to the deposit insurance funds posed by his/her assigned portfolio (caseload) of financial institutions. In conjunction with these responsibilities, the case manager is responsible for establishing and maintaining a close relationship with the appropriate state and federal supervisory agencies in the applicable geographic locations. Competencies for case managers are documented in detailed position descriptions, and duties and responsibilities are established in the *Case Managers Procedures Manual*.

Workforce Planning for the Future

In August 2004, the DSC Director issued a message to DSC employees on workforce planning for the future. The Director stated that in response to the FDIC COO's August 2004 message on workforce planning, DSC is positioning its workforce to reflect the trends in the financial services sector toward larger, more complex financial institutions through the dedication of increased resources to quantitative risk assessment, the implementation of Basel II, and enhanced on-site presence at some large institutions. The Director also noted that DSC is devoting increased resources to combat terrorist financing and financial crimes. Specific examples follow:

- Basel II: In June 2004, the Basel Committee on Banking Supervision, of which the FDIC is an active member, published the *International Convergence of Capital Measurement and Capital Standards*, more commonly referred to as "Basel II," an international effort to align capital standards with advances in financial institutions' risk measurement and management practices, while ensuring that such institutions and the industry as a whole maintain adequate capital and reserves. While official implementation of Basel II will not occur until year-end 2006, DSC has established new Senior Quantitative Risk Analyst (SQRA) positions and has identified desirable knowledge, skills, and abilities for those positions.

- Bank Secrecy Act: As part of regulatory efforts to ensure compliance with the Bank Secrecy Act (BSA), the FDIC committed to increase its level of BSA expertise and developed a computer-based training initiative for all risk management professional field staff and case managers. During testimony before the U.S. Senate, the FDIC Chairman reported that the FDIC was dedicating more staff to its Special Activities Section, which oversees the nationwide implementation and coordination of the FDIC's BSA, anti-money laundering, and USA PATRIOT Act efforts.[6] Additionally, the FDIC is designating and training additional BSA subject matter experts. The Chairman reported that the FDIC expected to double its number of BSA experts over the next 18 months and that the FDIC had more than 150 BSA experts nationwide.[7] Consistent with this testimony, the FDIC's 2005 budget included $400,000 to train 150 additional BSA specialists.

Need for a Formal Skills Assessment

DSC has made a number of efforts to identify the competencies and skills necessary to achieve divisional and corporate goals and objectives and has established benchmarks and commissioning requirements for its examiner workforce. However, DSC representatives acknowledged that DSC has not conducted a formal skills assessment of its existing staff against its desired competencies and skills to identify whether and where skills gaps exist.

As discussed earlier, GAO has reported that an analysis of gaps between skills and competencies currently needed and those that will be needed is critical to mapping out the

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[6] Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, Public Law 107-56.
[7] June 3, 2004 statement of the FDIC Chairman on *Regulatory Efforts to Ensure Compliance with the Bank Secrecy Act* before the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

current condition of the workforce and deciding work that needs to be done to ensure that the agency has the right mix of skills for the future.

Despite the lack of a formal skills assessment, we concluded, based on interviews with DSC managers and reviews of regional and field office Web Sites, that field and regional managers generally have an understanding of the skills and abilities of regional and field office employees, particularly for subject matter experts such as IT and trust examiners. This decentralized means of assessing existing skills may be sufficient for the time being; however, the FDIC's new Corporate Employee Program, which will include cross-training existing DSC staff and transferring employees to DSC from other divisions within the Corporation, will increase the need for a formal skills assessment. Accordingly, DSC should work with DOA to determine whether DOA plans to conduct comprehensive skills assessments that could span multiple divisions.

Recommendation

3. We recommend that the Director, DSC, through consultation with DOA, evaluate whether DSC would benefit from conducting a formal skills assessment.

Strategies for Addressing Gaps

The FDIC has undertaken several initiatives to reshape its workforce, including reorganizations, buyouts, and a new Corporate Employee Program and has proposed human resources flexibilities legislation. DSC works closely with the FDIC's Corporate University to provide examination staff a blended mix of training and development courses, on-the job training, and job rotational and detail opportunities. DSC has also been given limited opportunities to recruit for specialized positions such as qualitative risk analysts associated with the implementation of Basel II. Each of these strategies is targeted toward developing employees with skills and competencies needed to implement the FDIC's future business model. However, DSC lacks a centralized competencies repository containing skills and competencies information for individual employees. Such a repository could assist the FDIC in identifying and assessing the depth of skills gaps, particularly under the new CEP.

GAO notes that once an agency identifies the critical skills and competencies that its future workforce must posses, the agency can develop strategies tailored to address gaps in the number, skills and competencies, and deployment of the workforce and the alignment of human capital approaches that enable and sustain the contributions of all critical skills and competencies needed for the future. Strategies include the programs, policies, and practices that will enable an agency to recruit, develop, and retain the critical staff needed to achieve program goals. Developing such strategies creates a road map for an agency in moving from the current to the future workforce needed to achieve program goals. When considering strategies, it is important for agencies to consider the full range of flexibilities available under current authorities, as well as flexibilities that might need additional legislation before they can be adopted.

Corporate Initiatives to Reshape the Organization

Over the past few years, the FDIC has taken several steps to reshape its workforce, including:

Reorganizations: In 2002, the FDIC substantially revamped its internal organizational structure to improve operational efficiency and unify corporate efforts in each of the three major business lines: insurance, supervision, and receivership management. Among other actions, DSC reconfigured its regional and field office structure by converting 2 of its 8 regional offices to area offices and by closing 6 of its 90 field offices. DSC also delegated a number of functions, such as signing reports of examination and processing applications for deposit insurance, to lower organizational levels at the regional and field office level.

Buyouts: In 2002 and again in 2004, the FDIC initiated a buyout program to reduce the number of staff in surplus positions. The 2002 buyout was focused on completing the lengthy downsizing effort required from the 1996 merger of the FDIC and the Resolution Trust Corporation. Approximately 674 employees participated in the 2002 buyout. According to the staffing strategy, approximately 241 DSC employees took advantage of separation incentives during 2002, primarily at the headquarters office.

In October 2004, the COO announced a buyout to reduce 500-600 positions by year-end 2006, with the most substantial reductions targeted for DRR, DIT, and DOA. DSC limited the 2004 buyout to 100 positions and limited buyout participation to assistant regional directors, case managers, and non-supervisory examiners and excluded specialist positions such as special activities case managers and IT and trust examiners. The DSC Director noted that the buyout offered DSC a unique opportunity to support the Corporate Employee Program (discussed on the next page) and that the vacancies resulting from the buyouts will be used to provide initial positions for the Corporate Employee Program.

Workforce Planning for the Future and Vacancy Management Policy: In October 2003, the COO and Chief Financial Officer instituted a new policy, *Managing Positions in a Downsizing Environment*, setting forth several steps to be considered before filling vacant positions. The COO's August 2004, *Workforce Planning for the Future* memorandum revisited vacancy management and announced that the Corporation had established a goal to abolish at least half of all current and future vacancies over an 18-month period—a step toward achieving a reduction in authorized staffing levels in most divisions and offices.

As discussed earlier, in August 2004, the DSC Director issued a message to DSC employees announcing that DSC was positioning its workforce to reflect the trends in the financial services sector toward larger, more complex financial institutions. The DSC Director noted that "This shift will continue as we dedicate increased resources to quantitative risk assessment, the implementation of Basel II, and enhanced on-site presence at some large institutions. We are also devoting increased resources to combat terrorist financing and financial crimes." The Director also indicated that DSC would regularly review projected workload assumptions, conduct a skills-gap assessment and staffing analysis, and carefully review current staffing levels and evaluate each vacancy to determine whether and how it should be filled. The Director indicated that DSC would plan to hire one examiner for every three who left the Corporation.

Corporate Employee Program: In October 2004, the COO announced a new corporate program for "… developing a workforce with a corporate perspective that works collaboratively to accomplish mission critical functions and is capable of responding rapidly to changes in workload." A goal of the CEP was to create a culture that both encourages and rewards cross-divisional opportunities and experience in multiple disciplines.

> **The basic parameters of the CEP include:**
>
> - **a formal commissioning process for at least three fundamental skill sets required within the FDIC: risk management examiners, compliance examiners, and resolutions and receivership specialists; and**
> - **opportunities and incentives for employees to have on-the-job training and work experience including opportunities to become commissioned, in more than one of these three specialty areas.**
>
> ***Source: October 2004 message from the COO announcing the CEP.***

The CEP will initially focus on cross-training employees in the supervision and receivership business lines. Over time, both entry-level and mid-career-level employees will have training and experience in multiple disciplines or business lines. The CEP will include three initial strategies:

(1) A voluntary DRR-to-DSC crossover program to begin to integrate key corporate skill sets across business lines. DRR staff will be able to apply for an "in-service" training program in DSC to obtain commissioned examiner status.

(2) Voluntary rotational assignments of DSC examiners to DRR to earn a commission in resolutions and receiverships work. In the event of a significant increase in resolutions workload, DRR would have a first-priority right to call on these specialists.

(3) New criteria for hiring and training employees in the business line divisions in the form of "corporate employees" under term appointments. These employees will pursue commissioned examiner status and will simultaneously receive some training in resolution and receivership functions. The employees would be eligible to compete for available permanent positions within the Corporation.

Human Resources Flexibilities: Finally, in September 2004, the FDIC submitted proposed legislation to the Congress for more flexibility to manage the FDIC's human resources while responding to a rapidly changing financial services industry. Table 5 summarizes proposed key changes.

Table 5: Summary of Proposed Key Changes in the FDIC Workforce 21 Act of 2004

Key Changes Proposed
• First, the legislation would provide the FDIC with independent hiring authority. This would allow FDIC to streamline the hiring process, while not waiving, modifying or otherwise affecting merit system principles or applicable whistleblower provisions and equal employment opportunity laws.
• Second, it would give FDIC greater flexibility in using term appointments while establishing parameters to ensure that they were used to address specific workforce needs. Using this authority, FDIC could hire a term employee and convert the employee to a permanent appointment in the competitive service within the FDIC without further competition. This authority would also allow FDIC to augment our workforce with trained permanent staff when needed, or to reduce FDIC's workforce when there is not enough work to sustain additional permanent staff without conducting a reduction in force.
• Third, the legislation would authorize the FDIC to rehire and pay retired federal annuitants without those annuitants suffering a reduction of their annuities during the course of their employment. It would allow FDIC to staff up quickly with experienced, but retired, former employees, should the need arise.

Key Changes Proposed
• Fourth, it would allow FDIC to hire highly qualified experts and consultants quickly and for longer periods of time than ordinarily allowed by federal agencies. Employees hired under this authority would be able to serve up to five years and could be extended for one additional year in appropriate circumstances. These employees would be used to meet critical needs of the Corporation when existing employees do not have the requisite skills or knowledge.
• Fifth, the legislation would give the FDIC similar latitude in hiring its executives as the rest of the federal government has generally had to hire employees in the Senior Executive Service (SES). While the FDIC has no positions that are part of the SES, this amendment recognizes that FDIC executives play a parallel role at the FDIC.
• Sixth, it would authorize the FDIC to develop its own reduction-in-force and early-out regulations in connection with determinations to realign, reorganize or reduce our workforce. FDIC would *continue* to consider performance, veterans' preference, tenure of employment and length of service, along with such other factors as the Corporation deems necessary and appropriate. The FDIC would be allowed to make its own early-out determinations, but no more than 10 percent of the workforce would be permitted to take early retirement in each fiscal year.
• And, finally, the FDIC would be allowed to establish its own appeals process for employees subject to misconduct or unsatisfactory performance disciplinary actions, consistent with merit and fitness principles. The Corporation could streamline the rules and procedures for taking adverse actions, while continuing to ensure that employees receive due process and fair treatment.

Source: August 2004 FDIC News.

If passed, the above flexibilities would have a profound effect on the FDIC's ability to adjust its workforce in response to industry demands.

DSC Strategies for Preparing Its Workforce and Addressing Identified Gaps

The training of pre-commissioned examiners and the ongoing professional development of commissioned examiners are among DSC's top priorities. Ongoing training ensures that DSC examiners have the knowledge, skills, and abilities to perform the mission-critical work of the division. DSC employs a blended approach to training that consists of on-the-job training, classroom training, and self-directed study.

DSC recognizes that training is an essential component of employee development and effective bank supervision. Therefore, DSC is committed to developing and maintaining a qualified examination workforce. DSC provides its employees with equal access to training and developmental opportunities.

Source: DSC Training Statement.

The FDIC's Corporate University is the training and employee development arm of the FDIC and supports the Corporation's mission and business objectives through continuous learning and development. The Corporate University manages five schools, including the School of Supervision and Consumer Protection that supports core examiner training programs and speciality training programs. The school is responsible for the design, development, and delivery of 10 core classes for FDIC examiners and non-FDIC federal and state banking examiners.

DSC has also established a Training Oversight Committee, consisting primarily of deputy directors and regional directors, to oversee DSC's training program and related initiatives and a Course Oversight Group, consisting primarily of assistant regional directors, which oversees DSC's core examiner schools.

DSC's *Examiner Training and Development Policy*, updated in August 2004, provides the basis for uniformity in regional training practices for both the risk management examiner and compliance examiner career paths. DSC regional directors are responsible for ensuring that regional training and development practices adhere to FDIC and DSC policies and procedures and meet organizational goals and objectives. Field supervisors and supervisory examiners also work cooperatively to assess training needs, determine appropriate program activities, and evaluate the effectiveness of activities.

The policy sets forth a detailed training and development path for risk management and compliance examiners. Specifically, examiners must successfully complete several core examination schools, a technical evaluation (risk management examiners only), and a career development plan. Non-commissioned examiners must also demonstrate satisfactory on-the-job performance and receive a field supervisor recommendation before being promoted to a commissioned risk management or compliance examiner.

DSC's training policy also provides guidance for specialty examiners, such as capital markets specialists, IT examiners, and trust examiners. The policy notes that training and development activities should focus on developing and maintaining technical knowledge and skills in designated examination specialty areas and that maintaining competency in those areas is critical to the success of the examination program. The policy concludes that specialty examiners should receive exposure to key regulatory and industry seminars and conferences and that specialty examiners may also participate in industry certification programs as appropriate. In addition, Table 6 identifies Regional Directors Memoranda related to developing expertise in specialty areas.

Table 6: Regional Directors Memoranda for Specialty Examiner Positions

Title	Purpose
RDM 04-024, *National Trust Program*, dated 4/12/04	To develop trust expertise nationwide and to allow the sharing of examiner resources nationwide and to provide training opportunities.
RDM 03-052, *Information Technology On-The-Job Program*, dated 12/08/03	Revision to the 1997 program to provide examiners additional training in information systems examination concepts.
RDM 02-026, *Information Technology Flexible Training Program*, dated 6/13/02	Flexible training program for IT Specialists to replace the classroom-based advanced information systems training previously offered in Washington, D.C. The Program is designed to meet specific educational needs and to keep pace with emerging technologies and banking industry trends and permits each region to select and host IT training that is uniquely appropriate for their IT Specialists.
RDM 98-068, *Electronic Banking Subject Matter Experts*, dated 7/30/98	To expand the E-banking subject matter expert (SME) program. The program was developed to supplement Information Systems (IS) resources and meet the increased need for technical expertise. The regions initially designated 30 examiners as E-banking SMEs. This RDM expanded the program to recruit new E-banking SMEs.
RDM 04-028, *Introduction of the Examiner Continuing Education Program (ECEP)*, dated 6/16/04	ECEP replaces the former Commissioned Examiner Seminar and expands opportunities for seasoned examiners to broaden their knowledge base and remain informed on emerging issues. The ECEP delivers Web-based training on various supervisory topics, including Capital Markets (derivatives and asset-backed securities) and BSA and the USA PATRIOT Act.
RDM 04-046, *2004 Bank Secrecy Act, Anti-Money Laundering, and USA PATRIOT Act Training Initiative*, dated 10/18/04	To distribute guidelines and procedures for completing mandatory training of Web-based curriculum consisting of externally-provided courseware, internally-developed presentations, and reinforcing exercises related to BSA, anti-money laundering, and the USA PATRIOT Act.

Source: OIG Analysis of RDM.

Assessing the effectiveness of the Corporate University was beyond the scope of our evaluation. However, our ongoing *Evaluation of FDIC's Corporate University*, will evaluate the degree to which the Corporate University has implemented training programs and other developmental opportunities to help the FDIC build the competencies needed to achieve its mission and strategic goals and the overall cost-effectiveness of the Corporate University structure in comparison to initial goals and industry benchmarks.

DSC also addresses staffing needs and skills imbalances through the recruiting process. DOA has overall responsibility for the recruitment and hiring of all FDIC staff and has established a Corporate Recruiting Program that designated individuals as "National Recruiters" and identified a list of 'Key Schools" targeted for recruiting. DSC issued RDM 2004-006, *Changes in DSC Recruiting Procedures*, dated March 24, 2004, which (1) noted that 57 of the 58 National Recruiters are DSC personnel, (2) instituted changes to provide more flexibility to the regions in recruiting, (3) reduced the time involved in the hiring process, and (4) enhanced diversity hiring efforts.

We saw evidence that DSC used its training and recruiting strategies to address identified skills gaps as illustrated below:

- In conjunction with its efforts to increase its level of BSA expertise, DSC issued RDM 04-046, *2004 Bank Secrecy Act, Anti-Money Laundering, and USA PATRIOT Act Training Initiative*, dated October 18, 2004, which required all risk management professional staff and case managers to complete formal computer-based training by the end of 2004.

- As part of the 2005 corporate planning and budgeting process, the FDIC granted authority to increase staffing related to its Large Bank Program and the implementation of Basel II. Specifically, the FDIC's 2005 budget included $3.3 million to increase staffing for the Large Bank Program and $2.6 million for additional financial analysts and risk modeling specialists associated with the implementation of Basel II. As discussed previously, DSC established the SQRA position to meet this need. In late September 2004, the FDIC issued a vacancy announcement for multiple positions in headquarters, regional, and area offices for SQRAs at the CG-14 and CG-15 level. The positions were open to FDIC permanent employees in the competitive service.

Need for a Centralized Competencies Repository

Although DSC has defined desired competencies for its general and specialty examiners and has developed strategies for addressing skills gaps, DSC, and the Corporation as a whole, does not have a centralized repository for maintaining competency, skills, and experience information for individual employees. A centralized repository would assist the FDIC in targeting training and recruiting efforts, including determining the number of employees with particular training needs as well as readily assessing the depth of staff possessing particular competencies or experiences. The Corporation's effort to develop "corporate employees" with expertise in multiple business lines only heightens the need for such a repository.

The Corporate University currently maintains a training server that houses training-related information, including the specific courses that individual employees have completed. We concluded that the training server could be enhanced to serve as a competencies repository.

Recommendation:

4. We recommend that the Director, DSC, coordinate with the Human Resources Branch and the FDIC's Corporate University to determine the feasibility of using the training server to capture workforce planning information related to competencies, skills, and prior work experiences.

Monitoring and Evaluating Progress

The FDIC and DSC have several mechanisms for monitoring and evaluating the success of corporate and divisional initiatives, including initiatives related to workforce planning. These mechanisms include the HRC; corporate and divisional performance objectives; training and recruiting oversight entities; and the DSC Scorecard, a performance measurement initiative described later in this section of the report. However, it is not clear how these mechanisms interrelate to measure the success of DSC's workforce planning efforts. DSC should define, within the staffing strategy, what mechanisms are used to gauge the division's progress in reaching its workforce planning goals and how contributions toward the achievement of programmatic goals from individual initiatives and activities should be measured.

GAO has reported that high-performing organizations recognize the fundamental importance of measuring both the outcomes of human capital strategies and how these outcomes have helped organizations accomplish their missions and program goals. Performance measures, appropriately designed, can be used to gauge two types of success: (1) progress toward reaching human capital goals and (2) the contribution of human capital activities toward achieving program goals. Identifying both types of measures and discussing how the agency will use these measures to evaluate strategies help agency officials think through the scope of, timing for, and possible barriers to evaluating workforce planning initiatives. Periodic measurement of an agency's progress toward human capital goals and the extent to which human capital activities contribute to achieving program goals provides information for effective oversight by identifying performance shortfalls and appropriate corrective actions.

Mechanisms for Monitoring and Evaluating Corporate and Divisional Initiatives

We identified several mechanisms at the corporate and divisional levels that DSC uses to monitor the success of FDIC and DSC initiatives, including initiatives directly related to human capital and workforce planning:

- <u>Human Resources Committee</u>: As discussed earlier, at the corporate level, the HRC provides strategic direction and leadership for workforce planning and is responsible for developing policy recommendations and monitoring the implementation of the human resources initiatives.

- <u>Corporate Performance Objectives and Divisional Initiatives</u>: The FDIC develops annual corporate performance objectives that are approved by the FDIC Chairman. DSC, in turn, develops separate divisional initiatives that help to implement the corporate performance objectives. We reviewed the 2004 divisional initiatives and identified a number of initiatives related to human capital and workforce planning. Each of the initiatives were assigned to specific DSC points of contact and included action plan items and planned completion milestones, actual completion dates, and quarterly summaries detailing the status of the initiative. Table 7 presents selected examples.

Table 7: Examples of Divisional Initiatives Related to Human Capital or Workforce Planning

Divisional Initiative	Action Items Detailed in the Initiative
Implement the retiree contract program in which retired examiners would be hired back on a contract basis to perform examination duties.	• Select an oversight manager, complete a statement of work, and begin a competitive bid process. • Determine which businesses employ former examiners. • Evaluate workloads to determine regions requiring assistance.
Develop the concept of the FDIC Banc, the FDIC's "Virtual Bank" concept; if approved, begin hands-on training sessions in the new facility.	• Meet with division representatives to determine training needs. • Conduct benchmarking visits to determine the level of technology and virtual learning available within the industry. • Prepare background, proposal, and action plan and provide to the Corporate University Governing Board for approval. • Coordinate with DRR and an outside contractor to prepare a prototype learning module.
Develop a national trust program to provide resources and expertise for the examination of the largest and most complex trust departments.	• Issue RDM announcing program. • Announce expression of interest for program participants. • Review participants and regional feedback and evaluate the program (on a quarterly basis over an 18-month period).
Maintain skill levels of accounting specialists, capital markets specialists, and other subject matter experts on emerging issues and current developments in their designated specialty areas.	• Participate in a 2004 Capital Markets Specialist Conference. • Hold separate annual trust, capital markets, and accounting subject matter expert meetings. • Hold breakout sessions at a regional office training conference.

Source: OIG Analysis of 2004 DSC Divisional Initiatives.

- Training Oversight Entities: The FDIC's Corporate University efforts are monitored by a Governing Board, consisting of Deputies to the FDIC Chairman, division directors, and other selected executives; and deans, including the Dean for the School of Supervision and Consumer Protection, who help to ensure the integration and alignment of Corporate University activities with the interests of operating units.

  DSC established the Training Oversight Committee, consisting primarily of deputy directors and regional directors, to oversee DSC's training program; and the Course Oversight Group, consisting primarily of assistant regional directors, to review class materials and observe class instructors to ensure quality of training and consistency with corporate policies.

- Recruiting Efforts: DSC RDM 2004-006, *Changes in DSC Recruiting Procedures*, proposed creating an internal review committee staffed by senior DSC managers from each region and headquarters to monitor recruiting results.

- DSC Scorecard: The DSC Scorecard is a results-oriented, quantitative measure of examination efficiency that measures various work flows and products. The scorecard tracks examination hours, delinquencies, and report turnaround and allows for comparisons of the performance of individual territories and performance at the regional and national levels. DSC management uses the tool to measure performance and identify areas for improvement.

Nevertheless, it was not apparent to us how DSC uses these various mechanisms to measure the success of its workforce planning efforts. We concluded that DSC could expand its staffing strategy to include a discussion of the mechanisms used to gauge the division's progress in reaching its workforce planning goals. Further, this discussion could include guidance for the types of performance measures and gauges of success that DSC would expect to see for individual initiatives in order to assess each initiative's success and contribution toward the achievement of program goals. Corporate planning and budgeting meetings for 2005 have focused on streamlining the number of performance measures and the performance measure reporting process. Establishing a framework to define the various mechanisms used for monitoring and evaluating workforce planning could identify areas where performance measures are duplicative or are in conflict with one another.

Recommendation:

5. We recommend that the Director, DSC, document within DSC's Long Term Staffing Strategy the various mechanisms that DSC uses to monitor and measure the success of its human capital and workforce- planning-related initiatives and activities and expectations for how DSC should measure the contribution of individual workforce planning initiatives to the achievement of corporate and divisional program goals.

Corporation Comments and OIG Evaluation

On March 14, 2005, the Director, DSC, provided a written response to the draft report, which is presented in its entirety in Appendix II of this report. Appendix III presents a summary of the FDIC's responses to our recommendations.

DSC generally concurred with recommendations 1, 3, 4, and 5 in these respective areas:
- updating, finalizing, and communicating the Long Term Staffing Strategy;
- consulting with DOA and evaluating the need for conducting a formal skills assessment;
- coordinating with DOA and the Corporate University on the feasibility of using the training server to capture workforce planning information related to competencies, skills, and prior work experiences; and
- documenting within the Long Term Staffing Strategy the various mechanisms that DSC uses to monitor and measure the success of its human capital and workforce-planning-related initiatives and activities.

DSC partially concurred with recommendation 2 to validate and begin using the National Staffing Model and responded that it was in the process of making changes to the model resulting from changes in DSC business processes. DSC noted that it may be premature to begin using the model and offered an alternative action to test the model and evaluate its reliability as a forecasting tool to the extent possible during 2005 and provide a progress memorandum to the Director, DSC, by year-end 2005. DSC noted that it may choose to continue to test and refine the model rather than fully implementing it in 2005. DSC's alternative action meets the intent of our recommendation to develop and implement a reliable and accurate staffing model.

The actions underway and planned by DSC management are responsive to our recommendations. The recommendations are resolved but will remain undispositioned and open until we have determined that agreed-to corrective actions have been completed and are effective.

Objective, Scope, and Methodology

The objective of this evaluation was to assess DSC's efforts to:

- determine critical skills and competencies needed to achieve current and future corporate goals and objectives,
- identify gaps in skills and competencies that need to be addressed, and
- develop strategies to address current gaps in skills and competencies and future workforce needs.

To accomplish our objective, we did the following:

- Reviewed relevant human capital guidance from the OPM, GAO and the OMB to gain an understanding of human-capital-related concepts and workforce planning criteria.
- Reviewed DSC's Strategic Plan, Annual Performance Plan, Annual Corporate Objectives, and DSC divisional initiatives to identify DSC's workforce planning objectives and goals related to human capital.
- Interviewed DSC's officials and key corporate stakeholders to understand their roles and views of the process.
- Met with selected HRC members to obtain an understanding of how the corporate workforce planning issues relate to and are integrated with DSC's ongoing workforce planning efforts.
- Met with officials at the FDIC's Corporate University to understand their role in identifying and meeting the training needs of DSC employees.

As part of our assessment of DSC's workforce planning process, we also obtained and reviewed documents that influence DSC's workforce planning efforts, including DIR's Future of Banking studies, Government Performance and Results Act goals and objectives, HRC initiatives, DSC's process redesigns efforts, and other DSC pilot programs.

We conducted our evaluation from June to December 2004 in accordance with generally accepted government auditing standards.

Corporation Comments

FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Division of Supervision and Consumer Protection

March 14, 2005

TO: Stephen M. Beard
Deputy Assistant Inspector General for Audits

FROM: Michael J. Zamorski, Director
Division of Supervision and Consumer Protection

[Electronically produced version; original signed by Michael J. Zamorski]

SUBJECT: Response to OIG Draft Report Entitled *Division of Supervision and Consumer Protection's Process for Identifying Current and Future Skill and Competency Requirements* (Assignment Number 2004-027)

Thank you for the opportunity to respond to your draft evaluation report about the Division of Supervision and Consumer Protection's (DSC) process for identifying current and future skill and competency requirements. DSC is positioning our workforce to reflect the trends in the financial services sector and therefore, DSC regularly reviews skill set requirements and identifies ways to meet current and future needs. Our specific responses to each of your recommendations follow:

OIG recommendation:

(1) Incorporate discussion of the new Corporate Employee Program into the staffing strategy, finalize the staffing strategy, and communicate the staffing strategy to DSC employees and all DSC corporate managers.

DSC Response:

We agree with this recommendation and we have outlined staffing goals which are consistent with Office of Personnel Management (OPM) and Government Accountability Office (GAO) workforce planning guidance. We are currently updating staffing strategies and incorporating the October 2004 Corporate Employee Program strategies outlined by the Chief Operating Officer. We are also including in the strategy, any implications from the Relationship Management Program when it is implemented. We will communicate the updated strategy to our DSC corporate managers and employees by year-end 2005.

OIG recommendation:

(2) Validate the National Staffing Model to ensure that it yields accurate results, and begin using the model to estimate staffing needs.

DSC Response:

The National Staffing Model was developed in 2002. Since that time, DSC business processes have changed. In 2003, DSC raised the MERIT guideline thresholds to include institutions with total assets up to $1 billion. In 2004, the Compliance Refocus project modified procedures related to CRA/Compliance examinations.

In 2004, DSC began piloting its Relationship Management program which modifies the risk management examination process and changes the timeframe for examinations (open intervals of a year as opposed to point in time examinations).

Since all of the business process changes directly affect workload and staffing, DSC is modifying the staffing model to accurately reflect these process changes. In addition, it should be noted that there is a significant lag time, due to examination cycles, for noting staffing implications from these new processes.

We partially agree with this recommendation and are in the process of making changes to the model. After the changes are made, we will test the model and determine if it will be a reliable forecasting tool. However, your recommendation to begin using the model may be premature until changes are made and testing results are available. Therefore, we offer the following alternative action. DSC will test the model and evaluate its reliability as a forecasting tool to the extent possible during 2005 and provide a progress memorandum to the Director DSC by year-end 2005. We expect that due to the time lag and change issues previously discussed, DSC may choose to continue to test and refine the model rather than fully implement it in 2005. We believe this action meets the intent of the recommendation to build and implement a staffing model that is appropriate and fully tested.

OIG Recommendation:

(3) We recommend that the Director DSC, through consultation with the DOA, evaluate whether DSC would benefit from conducting a formal skills assessment.

DSC Response:

We agree with this recommendation and are working closely with the FDIC Division of Administration (DOA) and the FDIC Corporate University to identify skill sets and necessary training. We have recently initiated the Review of Promotion, Evaluation, and Selection (**ROPES**) Project that identified specific skill sets for a journeyman level examiner. We will evaluate the ROPES project results to verify the benefits of this assessment by year-end 2005.

OIG Recommendation:

(4) We recommend that the Director, DSC, coordinate with the Human Resources Branch and the FDIC's Corporate University to determine the feasibility of using the training server to capture workforce planning information related to competencies, skills, and prior work experiences.

DSC Response:

As with the response to recommendation # 3 above, we agree with this recommendation and will coordinate with FDIC's Corporate University to identify the feasibility of a centralized repository for specialized experience and training of our workforce by year-end 2005.

OIG Recommendation:

(5) Document within DSC's Long Term Staffing Strategy the various mechanisms that DSC uses to monitor and measure the success of its human capital and workforce- planning-related initiatives and activities and expectations for how DSC should measure the contribution of individual workforce planning initiatives to the achievement of corporate and divisional program goals.

DSC Response:

When all of DSC's new initiatives are in place -- including shifts of workload and staffing toward the areas of large bank and BASEL supervision, terrorist financing and anti -money laundering initiatives, and the corporate employee program we will review our long term staffing strategy. As part of that study, we will address each of the various mechanisms mentioned in the report to determine which will best provide the measurements of the division's progress in workforce planning goals. One of those measurements which DSC expects to be a large measurement tool will be the DSC scorecard. Initial training and updates to scorecard are still taking place but are expected to be completed by year-end. By year-end 2005 we will complete the study and document the mechanisms that measure workforce planning initiatives and achievements.

Management Responses to the Recommendations

This table presents the management responses on the recommendations in our report and the status of the recommendations as of the date of report issuance.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Dispositioned:[b] Yes or No	Open or Closed[c]
1	DSC is updating its staffing strategy to incorporate the October 2004 Corporate Employee Program and implications from the Relationship Management Program when it is implemented. DSC will communicate the updated strategy to DSC corporate managers and employees by year-end 2005.	December 31, 2005	$0	Yes	No	Open
2	DSC is in the process of making changes to the staffing model. DSC will test the model and evaluate its reliability as a forecasting tool to the extent possible during 2005 and provide a progress memorandum to the Director, DSC, by year-end 2005.	December 31, 2005	$0	Yes	No	Open
3	DSC is working closely with DOA and CU to identify skill sets and necessary training. DSC will evaluate the ROPES project results to verify the benefits of the project by year-end 2005.	December 31, 2005	$0	Yes	No	Open
4	DSC will coordinate with CU to identify the feasibility of a centralized repository for specialized experience and training of DSC's workforce by year-end 2005.	December 31, 2005	$0	Yes	No	Open
5	Concurrent with DSC's review and update of the staffing strategy, DSC will document the mechanisms that measure workforce planning initiatives and achievements.	December 31, 2005	$0	Yes	No	Open

[a] Resolved – (1) Management concurs with the recommendation, and the planned corrective action is consistent with the recommendation.
(2) Management does not concur with the recommendation, but planned alternative action is acceptable to the OIG.
(3) Management agrees to the OIG monetary benefits, or a different amount, or no ($0) amount. Monetary benefits are considered resolved as long as management provides an amount.

[b] Dispositioned – The agreed-upon corrective action must be implemented, determined to be effective, and the actual amounts of monetary benefits achieved through implementation identified. The OIG is responsible for determining whether the documentation provided by management is adequate to disposition the recommendation.

[c] Once the OIG dispositions the recommendation, it can then be closed.