

# **FEDERAL HOUSING FINANCE BOARD**



## ***AUDIT REPORT***

RECRUITMENT, SELECTION, AND RETENTION OF OS STAFF FOR

THE EXAMINATION FUNCTION

REPORT NUMBER: 07-A-01-OS/OM

*Prepared by the*

OFFICE OF INSPECTOR GENERAL

*EDWARD KELLEY  
INSPECTOR GENERAL*

January 2007

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**AUDIT REPORT**  
Office of Inspector General  
FEDERAL HOUSING FINANCE BOARD


Issue Date: January 31, 2007

Report Number: 07-A-01-OS/OM

**MEMORANDUM**

**TO:** Stephen M. Cross  
Director, Office of Supervision

David A. Lee  
Deputy Director, Office of Management

**FROM:**   
Edward Kelley  
Inspector General

**SUBJECT:** OIG Audit Report on the Recruitment, Selection, and Retention of OS Staff for the Examination Function

**EXECUTIVE SUMMARY**

The Federal Housing Finance Board's (Finance Board) Office of Supervision (OS) is responsible for conducting quality examinations of the Federal Home Loan Banks (FHLBanks) and Office of Finance (OF) to help ensure that the FHLBanks operate safely and soundly and accomplish their affordable housing mission. The effectiveness and efficiency of the Federal Housing Finance Board in recruiting, selecting, and retaining qualified staff for the examination function is a critical factor in OS accomplishing its mission. We have completed our audit of this area for the period of January 1, 2004 through July 31, 2006. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The objective of our audit was to assess the adequacy of OS' and OM's processes and procedures for recruiting, selecting, and retaining qualified OS staff.

We found that during the period reviewed, OS and OM have done a commendable job of responding to OS' immediate staffing needs that resulted from prior years of neglect. However, the Finance Board has not received the information it needs to: 1) determine whether the currently projected staffing needs are adequate to meet the agency's examination and supervisory mission, and 2) be responsive to changes in projected staffing needs. To accomplish this, OS needs to annually develop and present to the Finance Board a departmental strategic plan that addresses the goals, objectives, and actions needed to adequately recruit and select qualified candidates, and

retain qualified OS staff for the examination function. Additionally, OM needs to annually develop and present to the Finance Board a departmental strategic plan that describes the actions OM will take to effectively and efficiently support OS' staffing needs in the recruitment, selection, and retention areas.

The Director of OS agreed with our recommendation. Although he believes that they have in place both projections of total OS staff needed to perform the agency's supervisory function and the time frames within which additions to OS staff should be realized, he has directed that a written strategic staffing plan be compiled. He advised that the strategic staffing plan will: 1) cover a three-year period, 2) be updated annually, and 3) be completed by March 31, 2007. He said that the document will draw heavily from, and be consistent with the Finance Board's Strategic Plan and Annual Performance Budget.

The Deputy Director of OM disagreed with our recommendation. He indicated that a strategic plan is unnecessary, since they already prepare an Annual Plan, which is based on input from off-site meetings held with OM staff. These meetings occur for 1 ½ days each year. Additionally, he stated that it is not cost effective to prepare a strategic plan due to OM's small number of staff. He indicated that OM will work with OS as OS develops its strategic staffing plan. Additionally, OM will review the OS staffing plan annually with OS to ensure that OS's staffing needs are met in a timely and efficient manner. However, both our review and an OPM audit demonstrate that OM has not specifically documented and articulated the results of their planning efforts to OS or the Finance Board to facilitate the Finance Board's oversight of funds budgeted for OS' hiring efforts. Further, the small size of OM's staff is more justification for implementing a departmental strategic plan. A departmental strategic plan would be a valuable tool to enhance the effectiveness and efficiency of OM's management of those limited staff resources in order to increase their effectiveness and efficiency in supporting the recruitment, selection, and retention of OS staff.

### **OBJECTIVES AND SCOPE**

The objective of our audit was to assess the adequacy of OS' and OM's processes and procedures for recruiting, selecting, and retaining qualified OS staff. To accomplish our audit objective, we reviewed OS' and OM's recruitment, selection, and retention policies, procedures, and related statistics for the period of January 1, 2004 through July 31, 2006. Additionally, we reviewed federal guidelines and best practices. We also developed flowcharts and risk analysis matrices to identify potential risks.

We conducted interviews with agency managers and staff of OM and OS regarding the recruitment, selection, and retention process for examination staff. We performed a review of OS' and OM's fiscal years 2006 and 2007 budgets, as well as OS' self assessment of their FY 2005 accomplishments, to determine whether these documents provided sufficient details to the Finance Board of OS' goals and objectives for the recruitment, selection, and retention of OS staff that would support the examination and supervisory functions and their strategy for achieving them.



## BACKGROUND

OS is responsible for conducting quality examinations of the FHLBanks and OF to help ensure that the FHLBanks operate safely and soundly and accomplish their affordable housing mission. A critical factor in OS accomplishing its mission rests upon OS having an adequate number of qualified examiners and supervisory staff. In a February 2003 report, "Review of Selected Operations of the Federal Housing Finance Board," the Government Accountability Office (GAO) noted that FHFB examination officials stated that internal control reviews of FHLBanks were limited in scope and that FHFB officials cited the limited number of examiners (8 to 10) as one reason for not conducting thorough internal control reviews. FHFB management commented on GAO's report on February 5, 2003 and stated that since December 2001, the FHFB had hired five experienced examiners, increasing the examination staff to 14 full-time bank examiners. Subsequent to providing these management comments, the OS Director has requested and received board approval for additional OS staffing. For instance, there have been 23 OS staff hired in FY 2005 and 12 OS staff added in FY 2006. Additionally, the OS Director has budgeted for 5 new staff in FY 2007 that would result in 99 total OS staff. However, we observed that OS' budget requests to the board members for Fiscal Years 2006 and 2007 did not include information on the total number of examiners OS needed to accomplish its mission.

## FINDING AND RECOMMENDATION

### Written Comprehensive Strategic Plans Are Needed in OS and OM to Facilitate the Effective Recruitment, Selection, and Retention of OS Examination and Supervisory Staff.

#### Criteria:

The processes for recruiting, selecting, and retaining staff, involve coordination between program offices, their approving authorities, and various administrative support functions such as budgeting, human resources, facilities, etc. The foundation for successful coordination between program offices, their approving authorities, and administrative support functions is the clear justification and communication of program offices' staffing needs and clear communication of how administrative functions will provide support to address program offices' staffing needs. The development of strategic plans by both program offices and administrative support functions facilitates approving authorities' oversight of staffing goals by providing milestones for measuring progress toward the accomplishment of program offices' approved staffing goals.

The program office plan would include information critical to the administrative support functions' decisions on the need for permanent or temporary administrative employees, administrative staffs' leave plans, budget needs, etc. Specifically, the information from the program office would include: the justification for the number of staff requested, the timeframe for hiring various staff, the desired skills and experience of new hires, the training needs for new hires, the relocation needs of new hires, anticipated turnover, and estimated salary levels to be competitive with other employers.

The administrative support functions' plan would also include information critical to program offices' decisions. The information from the administrative support functions would include: the plan of the human resources function for distributing vacancy announcements, the minimum timeframes and

steps that are required to fill vacancies, the adequacy of job classifications to hire persons with the skills, knowledge, and abilities sought by the program office, and the flexibility of agency compensation rules to allow competitive salary offers by program officials.

The guidelines for implementing the Government Performance and Results Act (GPRA) of 1993 provide best practice procedures to be used by agencies in developing strategic plans.<sup>1</sup>

Condition:

Using GPRA guidelines, OS annually prepares the Finance Board's strategic plan for submission to the Office of Management and Budget and to the Congress. However, neither OS nor OM has developed departmental strategic plans that address OS' long range staffing goals. The Finance Board's Fiscal Years 2006 and 2007 budgeting procedures required each Finance Board office to provide their annual operating goals and objectives and justification for any hiring requests for the upcoming fiscal year. Although the information required is valuable, it falls short of the information needed to define; in this case, OS' long term goals for staffing the examination function and OM's long term plans for supporting their effort.

For fiscal years 2006 and 2007, OS requested staff increases of 16 and 5 respectively. The budget requests however, omitted key information including the following: 1) long range projections of the total number of staff OS has determined are needed to effectively perform the examination and supervisory functions and how that number is derived; 2) desired timeframes for

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<sup>1</sup> **306. Strategic plans**

(a) Such plan shall contain--

"(1) a comprehensive mission statement covering the major functions and operations of the agency; (2) general goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the agency; (3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives; (4) a description of how the performance goals included in the plan required by section 1115(a) of title 31 shall be related to the general goals and objectives in the strategic plan; (5) an identification of those key factors external to the agency and beyond its control that could significantly affect the achievement of the general goals and objectives; and (6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations.

(b) The strategic plan shall cover a period of not less than five years forward from the fiscal year in which it is submitted, and shall be updated and revised at least every three years.

(c) The performance plan required by section 1115 of title 31 shall be consistent with the agency's strategic plan. A performance plan may not be submitted for a fiscal year not covered by a current strategic plan under this section."

*(Government Performance and Results Act (GPRA) of 1993 (pages 2 and 3 of 14, Section 306(a)(3))*



achieving the examination staffing levels; and 3) potential obstacles to reaching the examination staffing level and how those obstacles will be countered.

Approved OS staffing decisions must be administratively supported by OM functions such as human resources. With regard to their support of OS' staffing efforts, key information missing from OM's budget requests included: 1) OM resources needed to support the OS staffing milestones, 2) potential obstacles to reaching the desired OM resources level; and 3) how those obstacles will be overcome. An Office of Personnel Management (OPM) audit of OM completed January 3, 2006 noted OM's lack of a plan with specific goals, objectives, and measures for recruiting, retaining, and developing highly skilled and dedicated Finance Board staff.

#### Cause:

According to the OS Director, OS ties its goals and objectives into the Finance Board's strategic plan. He stated that approximately 80 to 90 percent of the agency's strategic plan and annual plan are related to OS' functions and his office has used those as their guide for achieving their staffing goals. However, we observed that the Finance Board's strategic plan and annual plan fail to identify the total number of staff OS needs to perform its mission, what the recruiting process entails, timeframes for reaching interim staffing goals, or how staffing obstacles such as turnover will be managed.

The Deputy Director of OM stated that a departmental strategic plan is unnecessary and is not cost effective for a number of reasons. Specifically he noted that OM already uses an Annual Plan, which is based on input he gets from offsite meetings held with OM staff for 1 ½ days each year, where they discuss plans for the next year – including those related to OS. He indicated that he holds monthly meetings and weekly meetings with senior management and staff from OS and other offices. There is no indication from the board or the Chairman (who meets with OM officials weekly) that increased support is needed from OM. The Deputy Director of OM also advised that there are a reduced number of OS staff vacancies to be filled and he has the resources to support OS's need for 10 additional staff and OM has the flexibility in staffing to support OS and the Board. He indicated that this is because they perform cross training within OM so that OM staff will be able to properly support OS' needs and OM has a reserve account in the current budget that can handle any unforeseen needs including getting contract support if needed. Additionally, he indicated that OM does not have any problems providing support to OS on staffing. However, our review and an OPM audit demonstrate that OM has not specifically documented and articulated the results of their planning efforts to OS or the Finance Board to facilitate the Finance Board's oversight of funds budgeted for OS' hiring efforts.

#### Effect:

The Finance Board has not been provided adequate information for proper oversight of OS' annual budget request for new hires. OS has not clearly communicated to the Finance Board its total staffing needs for carrying out the examination and supervisory function, the planned timeframe for reaching that goal, the obstacles to meeting their staffing goal, and their plans for overcoming obstacles to their staffing goal. As a result, the Board's decisions on OS' request may not have their intended affect.

Recommendation:

We recommend that the Directors of OS and OM annually develop and present to the Finance Board, departmental Strategic Plans for their respective offices that incorporate the best practices contained in the GPRA guidelines and that address recruiting, selecting, and retaining OS staff.

Auditee Response:

The Director of OS agreed with the recommendation. He advised that OS will prepare their strategic staffing plan by March 31, 2007, which will cover a three-year period and will be updated annually. The OS strategic staffing plan will draw heavily from, and be consistent with the Finance Board's Strategic Plan and Annual Performance Budget.

The Deputy Director of OM disagreed with the recommendation. He indicated that a strategic plan for OM is unnecessary since OM already prepares an Annual Plan, which is based on input from offsite meetings held with OM staff for 1 ½ days each year, and it is not cost effective due to OM's small staff size. He indicated that OM will work with OS as OS develops its strategic staffing plan. Additionally, OM will review the OS staffing plan annually with OS to ensure that OS's staffing needs are met in a timely and efficient manner.




# APPENDIX



## Federal Housing Finance Board

*Date:* January 12, 2007

*To:* Jay Jacobsen, Audit Director  
Edward Kelley, Inspector General

*From:* Stephen M. Cross   
Director, Office of Supervision

*Subject:* Response to the Office of Inspector General's Final Draft Audit Report on the Recruitment, Selection, and Retention of OS staff for the Examination Function, Report Number 06-A-07-OS\_OM

Thank you for the opportunity to comment on the Office of Inspector General's (OIG's) final draft of its audit report on the "Recruitment, Selection, and Retention of OS Staff for the Examination Function."

The Office of Supervision (OS) is responsible for the examination and supervision of the FHLBanks and the Office of Finance (OF). Those examinations focus on the FHLBank's corporate governance, risk profile, risk management, and prudent operating practices relating to market, credit, and operational risk. The examinations also assess the administration of the FHLBanks' Affordable Housing Programs and check for compliance with applicable laws, regulations, and policies. Our examination and supervisory responsibilities cover safety and soundness and affordable housing and community investment programs.

The fundamental finding of your report is that the OS should prepare a written strategic staffing plan that addresses the goals, objectives, and actions needed to recruit and select qualified candidates and retain qualified OS staff for the examination function. I respect and agree with the need to conduct annually the due diligence necessary to assess the continuing ability of the OS to recruit, select, and retain highly qualified staff to achieve the goals of the agency's examination function. Indeed, we presently conduct this type of analysis every year in the preparation of our annual budget submission to the Office of Management (OM) and ultimately to the agency's Chairman and Board of Directors.

During the preparation of its annual budget submission to the OM, which is ultimately forwarded by OM to the Office of the Chairman and the agency's Board of Directors, the Office of Supervision conducts a review of its operations over the previous year. Included in that assessment is an evaluation of its success in meeting its performance goals and measures, an evaluation of how market and technological innovations and developments have affected the FHLBanks, and an evaluation of how the OS might change its organization, staffing, and focus

to ensure that it remains ready and able to identify, measure, and monitor on a continual basis the risks facing the FHLBanks and the FHLBank System. The annual budget submission of the OS reflects our best and most up-to-date assessment of our needs for the upcoming fiscal year. Following the submission of the OS budget request to the Chairman, and indeed throughout the year during Senior Staff meetings, an ongoing dialogue is maintained assessing and discussing the long-term resource needs of the Office of Supervision.

In light of that process, I believe we have in place both projections of total OS staff needed to perform the agency's supervisory function and the time frames within which additions to our staff should be realized. While I do not believe it is necessary to put that information into a separate written strategic staffing plan, in response to the OIG's recommendations, we are in the process of compiling that information in such a form. That strategic staffing plan for OS, which will cover a three-year period and will be updated annually, will be completed in the first quarter of CY 2007. That document will draw heavily from, and be consistent with, the Finance Board's Strategic Plan and Annual Performance Budget.

The Strategic Plan, which is prepared by the OS, outlines the agency's strategic goals and annual performance goals and measures. It is used to assess the extent to which the agency is meeting those goals. The Strategic Plan also outlines the key external factors that may impede the ability of the agency to fully achieve its strategic goals. Included in the discussion of key external factors is a discussion of staffing issues and the Finance Board's strategies for mitigating any staffing difficulties it might encounter. The Strategic Plan covers a five-year period, and is updated as necessary and at least every three years.

The Annual Performance Budget, also written by the OS, provides more specific information pertaining to how the agency will meet its annual performance goals and measures during the upcoming fiscal year. This document provides breakouts for the number of FTEs and budgetary expenditures that will be required by the supervisory and examination program, along with that needed for infrastructure and support FTEs and expenses to accomplish each strategic goal. This information is provided for the current fiscal year, the previous fiscal year, and for the upcoming fiscal year. Also included in the Annual Performance Budget is a discussion of the methods the Finance Board utilizes to recruit and retain the highly skilled staff it needs to accomplish its mission.

The OS also prepares the Annual Performance and Accountability Report for the Finance Board. This document is a "report card" on the agency's ability to achieve its mission during the past year. This document reports the degree to which the agency met each of its annual performance goals and measures. The document also shows the allocation of agency expenses to achieve each strategic goal set by the Finance Board over the most recent three years.

In sum, I believe that substantively the OS and the Finance Board currently have in place the mechanisms and procedures to assess staffing needs and to establish appropriate strategies for recruitment and retention of examination staff. However, in light of the OIG's recommendations, the OS will prepare a strategic staffing plan by March 31, 2007.





**Federal Housing Finance Board**

January 25, 2007

TO: ~~Edward Kelley~~  
~~Inspector General~~

FROM: ~~David A. Lee~~  
~~Acting Director, Office of Management~~

SUBJECT: Response to the Final Draft of the Audit Report on Fiscal Year (FY) 2006  
Review of the Effectiveness of Examiner Recruitment, Selection and  
Retention

Thank you for the opportunity to review and comment on the Final Draft of the Audit Report on Fiscal Year (FY) 2006 Review of the Effectiveness of Examiner Recruitment, Selection and Retention. Outlined below is the Office of Management's response.

**Recommendation 1**

The OIG recommends that the Directors of the Office of Supervision (OS) and OM annually develop and present to the Finance Board, departmental Strategic Plans for their respective offices that incorporate the best practices contained in the Government Performance Results Act guidelines and that addresses recruiting, selecting and retaining OS staff.

**Office of Management Response**

While OM continues to disagree with the recommendation, OM will work with OS as OS develops its strategic staffing plan. OM will review the plan annually with OS to ensure OS staffing needs are met in a timely and efficient manner.

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# Federal Housing Finance Board

August 15, 2006

## MEMORANDUM

**TO:** Ronald A. Rosenfeld  
Chairman

**FROM:**   
Edward Kelley  
Inspector General

**SUBJECT:** Audit Report on the Quality of Office of Supervision's Examination Guidance

Attached for your information, is the subject audit report. Copies of this report have been sent to the Director, Office of Supervision. No action by you is required.

If you have any questions, please contact me at extension 2544.

Attachment

cc: Stephen M. Cross w/o attachment  
Daris D. Meeks

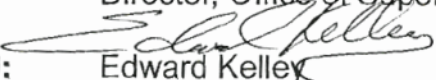


# Federal Housing Finance Board

August 15, 2006

## MEMORANDUM

**TO:** Stephen M. Cross  
Director, Office of Supervision

**FROM:**   
Edward Kelley  
Inspector General

**SUBJECT:** Audit Report on the Quality of Office of Supervision's Examination Guidance

Attached are three copies of the final report on our audit of the Quality of Office of Supervision's Examination Guidance. Your August 2, 2006 comments have been incorporated into the body of the report, where appropriate, and the full text of your comments has been appended to the report.

Consistent with our policy, a copy of the report has been provided to the Chairman.

Thank you for your cooperation. If you have any questions, please contact me at extension 2544.

Attachment

cc: Christie A. Sciacca  
Daniel E. Coates