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Report No. EVAL-07-002

**Evaluation of the FDIC's Use of
Performance Measures**

Office of Evaluations



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Background and Purpose of Evaluation

Congress and the Office of Management and Budget (OMB) have worked to implement a statutory and management reform framework to improve the performance and accountability of the federal government. Congress enacted the Government Performance and Results Act of 1993 (GPRA) as a key element of this framework. GPRA seeks to improve the management of federal programs, as well as their effectiveness and efficiency, by establishing a system under which agencies set goals for program performance and measure their results.

The FDIC meets GPRA requirements through the issuance of a strategic plan, an annual performance plan (APP), and a performance and accountability report (PAR). The FDIC also has implemented additional performance measurement processes in the form of Corporate Performance Objectives (CPOs) and balanced scorecards, as well as other performance metrics related to individual contracts and system development efforts.

Our evaluation objective was to evaluate the performance measurement processes that the FDIC uses to monitor corporate performance.

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Evaluation of the FDIC's Use of Performance Measures

Results of Evaluation

The FDIC has developed and implemented multiple performance measurement processes and approaches that serve various stakeholder needs and that FDIC managers use to varying levels to manage and monitor program performance. Collectively, we found that the FDIC uses performance measures to make management decisions to improve programs and results. We also observed that the FDIC employs practices to enhance the use of performance information.

We found that FDIC managers use some performance measures more than others to make management decisions and to manage their programs. For example:

- Most senior managers that we interviewed stated that they do not find APP information useful or use APP information to manage their programs.
- FDIC management has placed considerable emphasis on the CPO process to measure and internally report on strategic, corporate-wide initiatives that address some of the most important issues facing the Corporation.
- Certain divisions and offices have implemented balanced scorecards. Others are in the process of developing scorecards, but implementation has been uneven.

The FDIC also communicates performance measures externally by publishing a strategic plan, APP, and PAR. These documents generally contain information required by GPRA and implementing guidance issued by OMB. Notwithstanding, we identified opportunities to enhance the APP and PAR to increase transparency, improve corporate accountability, and provide information to aid in congressional decision-making, all key purposes of the GPRA legislation:

- There are a number of important FDIC initiatives with associated CPOs that would likely be of interest to the public and the Congress that are not addressed in the APP. Because the CPOs are distributed internally, they are not transparent to the public or Congress.
- Consistent with the discretion allowed in OMB guidance, the APP is limited to business line areas (Insurance, Supervision, and Receivership Management). However, this approach results in important, financially significant initiatives related to areas such as human capital and system development efforts not being reflected in the APP.
- FDIC officials continue to "struggle" with measuring outcomes because there are factors beyond the control of the Corporation that influence achievement of the outcomes.
- The FDIC performs program evaluations of APP goals, but could add more structure and independence to the program evaluation effort, better define the scope and methodology of the evaluation work performed, and better identify how program evaluations are used to improve program performance.

Recommendations

We made three recommendations to strengthen the performance measurement processes. The FDIC did not concur with the recommendations, but has taken or proposed actions that meet the intent of two of the recommendations. The final recommendation addressed enhancements we determined were needed in the FDIC's GPRA program evaluation function. After considering management's response, we continue to believe that the FDIC would benefit from implementing our recommendation. Nevertheless, because GPRA does not specifically require agencies to conduct program evaluations we are accepting management's decision not to take action on this recommendation. Accordingly, we consider all three recommendations closed.

TABLE OF CONTENTS

EVALUATION OBJECTIVE AND APPROACH	1
RESULTS IN BRIEF	2
BACKGROUND	3
EVALUATION RESULTS	5
The FDIC Uses Performance Information to Make Management Decisions and to Improve Programs and Results	5
The FDIC’s Use of Performance Information	5
Practices Used by the FDIC to Enhance Performance Information	7
FDIC Managers’ Use of Performance Information Varies	8
Usefulness of GPRA	9
Corporate Performance Objective Process	9
The FDIC’s Implementation of Balanced Scorecards	11
Recommendation	12
The FDIC’s Government Performance and Results Act Process Could Be Enhanced	13
Legislative Requirements for GPRA Plans and Performance Reports	13
Alignment and Transparency of Performance Measures	14
Recognition of Mission Support Activities and Operations	16
Output Versus Outcome Measures	18
Program Evaluations	18
Recommendations	21
Corporation Comments and OIG Evaluation	22
APPENDIX I: Objective, Scope, and Methodology	25
APPENDIX II: Corporation Comments	28
APPENDIX III: Management Responses to Recommendations	31
TABLES	
Table 1: Status of Scorecard Efforts by Division	12
Table 2: Overview of 2006 Annual Performance Plan Goals and Objectives	14
Table 3: Alignment of 2006 CPOs and APP	15
Table 4: Analysis of 2007 Performance Measures for Important Issues Facing the FDIC	15
Table 5: Goals and Objectives Related to Mission Support Functions at Other Agencies	17



DATE: May 2, 2007

MEMORANDUM TO: Fred S. Selby
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FROM: [Signed]
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SUBJECT: *Evaluation of the FDIC's Use of Performance Measures*
(Report No. EVAL-07-002)

This report presents the results of our evaluation of the Federal Deposit Insurance Corporation's (FDIC) use of performance measures. Congress has established a statutory framework to improve the performance, management, and accountability of the federal government. The Government Performance and Results Act of 1993 (GPRA) is a central component of that framework. GPRA seeks to improve the management of federal programs, as well as their effectiveness and efficiency, by establishing a system under which agencies set goals for program performance and measure their results. The FDIC meets GPRA requirements through the issuance of a strategic plan, an annual performance plan (APP), and a performance and accountability report (PAR). The FDIC also has implemented additional performance measurement processes in the form of Corporate Performance Objectives (CPOs) and balanced scorecards.¹ We performed this evaluation as a follow-up to a prior evaluation of the FDIC's Corporate Planning Cycle.²

EVALUATION OBJECTIVE AND APPROACH

Our objective was to evaluate the performance measurement processes that the FDIC uses to monitor corporate performance. To accomplish our objective, we evaluated:

- whether the GPRA, CPO, and scorecard measures are aligned with the FDIC's strategic goals and objectives,
- FDIC management and stakeholder views on the usefulness of performance measures in monitoring corporate performance,
- whether there are opportunities for streamlining or combining the FDIC's performance measurement processes, and
- whether performance results are transparent to internal and external stakeholders.

Appendix I describes in detail our objective, scope, and methodology.

¹ Such scorecards are considered "balanced" because they present performance metrics from various perspectives, such as customer, business process, and learning and growth to "balance" the financial perspective.

² We evaluated the FDIC's budget development process in evaluation report No. 05-032 entitled, *Follow-up Evaluation of the FDIC's Corporate Planning Cycle*, dated September 2005.

RESULTS IN BRIEF

The FDIC has developed and implemented multiple performance measurement processes and approaches that serve various stakeholder needs and that FDIC managers use to varying levels to manage and monitor program performance. These processes and approaches include:

- the legislatively-mandated GPRA annual performance planning and reporting efforts,
- the internally-focused CPO process,
- division-specific balanced scorecards, and
- other performance metrics related to individual contracts and system development efforts.

Collectively, we found that the FDIC uses performance measures to make various types of management decisions to improve programs and results. For example, we saw evidence that the FDIC uses performance measures for:

- identifying problems and taking corrective action,
- developing management strategies and allocating resources,
- recognizing and rewarding performance, and
- identifying and sharing effective processes and approaches.

We also observed that the FDIC employs the following practices that enhance the use of performance information:

- demonstrating management commitment;
- aligning agency goals, objectives, and measures;
- improving the usefulness of performance information through tools, systems, and processes; and
- communicating performance information internally.

These observations reflect most of the attributes that the Government Accountability Office (GAO) has reported as examples of how agencies can use performance information for key management decisions and agency practices that can enhance or facilitate such use.

We found that FDIC managers have embraced and used some performance measures more than others to make management decisions and to manage their programs. For example:

- While FDIC senior managers are mindful of the broad, mission-related goals in the Strategic Plan and APP, most that we interviewed stated that they do not find APP information useful or use APP information to manage their programs.
- FDIC management has placed considerable emphasis on the CPO process to measure and internally report on strategic, corporate-wide initiatives that address some of the most important issues facing the Corporation. The Corporation has also established a policy that ties executive manager pay to the achievement of CPOs and other performance measures.
- Certain divisions and offices have implemented balanced scorecards. The Division of Supervision and Consumer Protection (DSC), in particular, uses its scorecard to monitor and manage day-to-day operations at regional and field offices. Several other divisions and offices are in the process of developing scorecards, but implementation has been uneven. While there needs to be flexibility in scorecard design to meet individual divisional needs,

the COO and CFO could provide more high-level direction on the use of scorecards and how scorecards should integrate with the FDIC's other performance measurement processes.

The FDIC also communicates performance measures externally by publishing a strategic plan, APP, and PAR. These documents generally contain information required by GPRA and implementing guidance issued by the Office of Management and Budget (OMB). Notwithstanding, we identified the following issues and challenges associated with the Corporation's implementation of GPRA and opportunities to enhance the APP and PAR to increase transparency, improve corporate accountability, and provide information to aid in congressional decision-making, all key purposes of the GPRA legislation:

- While a majority of CPOs are aligned with APP goals and FDIC strategic objectives, there are a number of important FDIC initiatives with associated CPOs that would likely be of interest to the public and the Congress that are not addressed in the APP. Because the CPOs are distributed internally, they are not transparent to the public or Congress. The FDIC could benefit from a more structured, documented process for determining which initiatives should be reported in the APP, as CPOs, or in both sets of performance measures.
- Consistent with the discretion allowed in OMB guidance, the APP is limited to business line areas (Insurance, Supervision, and Receivership Management). However, this approach results in important, financially significant initiatives related to areas such as human capital and system development efforts not being reflected in the APP.
- FDIC officials have looked for opportunities to establish outcome-related goals but told us they continue to "struggle" with the validity of such measures because there are factors beyond the control of the Corporation that influence achievement of the outcomes. GPRA contains a specific emphasis for agencies to move toward using qualitative outcome measures that provide a better measurement of program results than quantitative output measures.
- Finally, the FDIC performs program evaluations of APP goals but could add more structure and independence to the program evaluation effort.

BACKGROUND

Congress and the OMB have worked to implement a statutory and management reform framework to improve the performance and accountability of the federal government. Congress enacted GPRA as a key element of this framework to:

- improve public confidence in the federal government by holding federal agencies accountable for their program results;
- reform performance by using program goals, measuring results, and publicly reporting the progress;
- promote service quality and customer satisfaction;
- improve congressional decision-making by providing objective information on agency program effectiveness and efficiency; and
- improve internal management of the federal government.

In 1995, the FDIC's Legal Division concluded that the Corporation was subject to certain GPRA provisions, specifically, the requirement to prepare and submit a strategic plan, an APP, and a PAR. The FDIC developed its initial strategic plan in 1995. The FDIC Board approved the current *Strategic Plan 2005-2010* in January 2005. The Plan reflects goals, objectives, and strategies for three major program areas: Insurance, Supervision, and Receivership Management. The strategic goals and objectives state what must be done to achieve the FDIC's mission.

The FDIC's strategic plan is implemented through the APP, which includes annual performance goals, indicators, and targets for each strategic objective within the three major program areas. The performance goals use a mix of output and milestone targets to measure the FDIC's efforts toward accomplishing its mission and strategic goals.

In accordance with the provisions of section 17(a) of the Federal Deposit Insurance Act and GPRA, the FDIC submits a PAR to the President and the Congress that compares actual performance to the APP annual performance goals. This report is intended to provide important information to FDIC managers, policymakers, and the public on what the FDIC accomplished with its budgeted resources.

The Division of Finance's (DOF) Corporate Planning & Performance Management (CPPM) section manages the FDIC's planning and budget process and provides guidance to division and office staff responsible for business planning, budgeting, and reporting. FDIC Circular 4100.2, *Verification and Validation Guidelines for Performance Planning and Reporting*, dated November 30, 2001, provides guidance to divisions and offices responsible for reporting the APP results in the PAR to Congress. The FDIC recently issued Circular 4100.4, *Corporate Planning and Budget Processes*, dated March 21, 2007, which provides an overview of corporate planning and budget processes and defines the roles and responsibilities of FDIC employees and organizations in those processes.

CPPM prepares exception-based quarterly performance results memoranda for the Chief Operating Officer (COO) and Chief Financial Officer (CFO), which include information about GPRA performance goals that are behind schedule or not on target. The Office of Enterprise Risk Management (OERM) prepares the FDIC's PAR with assistance from CPPM and has responsibility for completing program evaluations of the Corporation's business lines as contemplated under GPRA.

Corporate Performance Objectives

The FDIC also develops annual CPOs, which FDIC management defines as a compilation of specific performance targets and measures developed during the annual planning and budget process and approved by the Chairman. The CPO document defines performance targets to be accomplished on an annual basis. These objectives often cut across organizational lines and provide a mechanism for managing the performance of FDIC organizations from a corporate perspective. FDIC management characterizes these objectives as the Corporation's "change management" agenda, and these objectives are separate and distinct from the mission-critical APP annual performance goals. DOF disseminates the annual CPO document to all employees within the Corporation, but not publicly outside of the FDIC.

Balanced Scorecards and Divisional Initiatives

A scorecard system is a strategic management tool that helps manage, monitor, and communicate strategic goals and objectives. DSC developed a balanced scorecard in 2003 to measure and compare information such as examiner efficiency between regional and field offices. FDIC established a 2005 CPO initiative to develop and pilot test for 6 months in all divisions and appropriate offices, a multi-dimensional scorecard to measure performance against meaningful costs, quality, timeliness, and customer service benchmarks with the intent of implementing a corporate scorecard program by March 2006. OERM assumed responsibility for leading this effort.

Moreover, some divisions identify and track progress on performance initiatives that are important to their operations but do not rise to the level of a CPO.

Other Performance Measures

The FDIC also has other performance measurement processes for individual contracts, projects, and initiatives. The FDIC adopted significant changes in 2004 to the sourcing strategy for obtaining contractor support for its IT functions. These changes incorporate the concept of using performance-based, results-driven contracts. The structure of the new contracts places the emphasis on contractor performance and links contractor compensation to results achieved rather than hours worked. Moreover, the Division of Administration (DOA) and the Division of Information Technology (DIT) prepare periodic reports for major contract and system development efforts that include performance metric information.

EVALUATION RESULTS

The FDIC Uses Performance Information to Make Management Decisions and to Improve Programs and Results

The FDIC has developed and implemented multiple performance measurement processes that serve various stakeholder needs and that FDIC managers use to varying levels to manage and monitor program performance. Collectively, these processes provide FDIC managers with information to make management decisions and to improve programs and results. In addition, the FDIC has implemented various practices that enhance or facilitate the use of performance information.

FDIC's Use of Performance Information

In a 2005 report,³ the GAO identified examples of how federal agencies are using performance information for key management decisions. GAO also identified several categories of management decisions for which managers can use performance information. We evaluated the FDIC's use of performance information using GAO's report as a guide and identified similar instances where the FDIC has used performance information for management decision-making purposes, as illustrated below.

³ *Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making*, GAO-05-927, dated September 2005.

Identify problems in programs and take corrective action: GAO reported that performance information can be used to identify gaps in performance, improve organizational processes, and improve program performance. As discussed later, DSC has developed a balanced scorecard that focuses on quantitative and qualitative success measures and provides information at the national, regional, and territory level to reflect division results against predetermined targets and thresholds. DSC uses scorecard information to determine program success or the need for additional effort or resources.

The FDIC has also developed performance metrics in a red, yellow, and green stoplight fashion to monitor cost, schedule, and overall performance of large contracts and capital investment projects. The FDIC uses these metrics to make mid-course corrections, funding decisions, or project management changes, if needed.

Developing strategies, plan and budget, identify priorities, and allocate resources: GAO noted that agencies can use performance information to make decisions that affect future strategies, to infuse performance concerns into planning and budgetary deliberations, and to compare program results with goals and thus determine where to target program resources to improve performance. We have previously reported that the FDIC has integrated its planning and budget process.⁴ One senior FDIC manager indicated that the FDIC uses its performance measures to focus and drive the strategic direction of the Corporation. As discussed later, the CPOs represent strategic, corporate-wide initiatives that address the most important issues facing the Corporation. Several CPOs have been related to providing more attention and additional resources to risks facing the banking industry or the FDIC. For example, the FDIC had three CPOs during 2005 related to the Bank Secrecy Act (BSA), which included developing an industry outreach effort, developing and implementing BSA and anti-money laundering examination procedures, and doubling the number of BSA subject matter experts.

Recognize and reward performance: Agencies can use performance information to affect pay decisions and to reward individuals. Using performance information this way reinforces accountability and creates incentives for achieving results. GAO notes that high-performing public-sector organizations create a clear “line of sight” between individual performance and organizational success showing how team, unit, and individual performance can contribute to overall organizational success. At the FDIC, corporate manager and executive manager pay and funding for bonuses is based in part on the Corporation’s level of success in meeting corporate goals and objectives.

Identify and share more effective processes and approaches: GAO reported that successful organizations continuously assess and benchmark performance and efforts to improve performance. These organizations evaluate their efforts using fact-based understandings of how their activities contribute to accomplishing agency missions and achieving results, and optimize their efforts through continuous improvement. Managers can use performance information to identify and increase the use of program approaches that are working well, and consider alternative processes in areas where goals are not being met. We identified instances where the FDIC expanded the use of successful CPO initiatives to other areas of the Corporation. For example, as discussed later, DSC developed a balanced scorecard in 2003 to monitor and manage day-to-day operations at regional and field offices. The Corporation subsequently expanded the use of balanced scorecards to other divisions and offices.

⁴ *Follow-up Evaluation of the FDIC’s Corporate Planning Cycle*, Report No. 05-032, dated September 2005.

In a second case, the FDIC developed a Talent Review⁵ program at the executive manager level in response to a 2006 CPO.⁶ Due to the success of this program, the FDIC established a 2007 CPO to expand the Talent Review to the Corporate Manager ranks.

Practices Used by the FDIC to Enhance Performance Information

The GAO also stated that agencies can adopt or apply a number of practices that can enhance and facilitate greater use of performance information for policy and program decisions. We noted the following practices used by FDIC management to enhance the use of performance information:

Demonstrating management commitment: GAO reported that the commitment of agency managers to results-oriented management is critical to increased use of performance information for policy and program decisions. We observed that the 2007 Planning and Budget Conference was attended by the FDIC's Vice Chairman, a Board member, a Chairman's representative, the COO, the CFO, and most division and office directors. Moreover, the CPPM provides a quarterly performance review report to the CFO and COO that presents the status of each CPO and related initiatives and provides a quarterly exception report of APP goals and targets that are not being met. These quarterly reports are also provided to the FDIC Chairman, Vice Chairman, and FDIC Director.

Aligning agency-wide goals, objectives and measures: GAO reported that agencies can encourage greater use of performance information by aligning agency-wide goals and objectives, and by aligning program performance measures at each operating level with those goals and objectives. GAO notes that "cascading" goals and objectives throughout the organization and aligning performance measures to the objectives from the executive level down to the operational levels forms hierarchies of goals and objectives and performance information that are appropriate to the managerial responsibilities and controls at each level of the organization. The FDIC's strategic goals and objectives cascade down through the organization from the APP and CPOs to more detailed divisional initiatives and balanced scorecard information and, in some cases, detailed performance-based contracting measures. As discussed later in this report, we found that a majority of the CPOs are aligned with APP goals and strategic objectives. However, we did identify opportunities to increase alignment, particularly by including goals in the APP related to key mission support activities.

Improving the usefulness of performance information: GAO notes that to ensure that performance information is both useful and used in decision making, agencies need to consider users' differing policy and management information needs and ensure that performance information meets users' needs for completeness, accuracy, consistency, timeliness, validity, and ease of use. GAO notes that involving managers in the development of performance goals and measures is critical to increasing the relevance and therefore the usefulness of performance information to their day-to-day activities. As discussed later, FDIC senior level managers are involved in developing, reviewing and approving APP and CPO goals, targets, and indicators during the annual planning and budget process. DOF also issued Circular 4100.2, *Verification and Validation Guidelines for Performance Planning and Reporting*, dated

⁵ A Talent Review is a confidential, succession management process which identifies "at risk" positions, assesses leadership bench strength, and develops strategies for replacing and enhancing bench strength.

⁶ 2006 Performance objective 4 III.1.a. "Encourage and promote a motivated, high-performing, and results-oriented workforce by implementing a comprehensive and integrated Leadership Development Program," included an action plan step to develop the concept of an annual talent review of all employees above a specific grade level.

November 30, 2001, which revised the roles and responsibilities for ensuring the accuracy of FDIC Quarterly and Annual Performance Reports data.

DOF has also established a Cost Management Program designed to provide reliable and timely information about the full cost of the FDIC's business processes, activities, and outputs on a regular basis to enable managers to make decisions about allocating resources, evaluating program performance, and improving efficiency and effectiveness. DOF has implemented an Activity Based Management module to the FDIC's New Financial Environment and is presently working with divisions and offices to design management reports to support specific cost management and performance measurement needs.

Communicating performance information frequently and effectively: GAO reported that improving the communication of performance information among staff and stakeholders can facilitate the use of performance information by agency managers and that frequent, regular communication is key for managers to inform staff and other stakeholders of their commitment to achieve the agency's goals and to keep those goals in mind as they pursue their day-to-day activities. As discussed later in this report, we concluded that the FDIC sufficiently communicates performance information internally, but could increase accountability for, and transparency of, performance information to external stakeholders. DOF posts the CPOs and a summary of year-to-date cumulative results on the FDIC's internal Web site. DOF also provides a detailed quarterly performance review of the CPOs to the COO, CFO, FDIC Chairman, and internal FDIC Board Members.

During his tenure, the former FDIC Chairman issued a *Quarterly Letter to Stakeholders*, which included key indices for the Corporation such as insurance fund levels and financial institutions supervised, as well as summary information about the status of selected CPOs. This Quarterly Letter was posted to the FDIC's external Web site. The FDIC last posted this publication to the FDIC Web site in October 2005 following the former Chairman's departure from the FDIC.

Finally, DSC's balanced scorecard is available to all DSC staff and provides detailed information about strategic objectives, success indicators, and performance targets to provide a comprehensive view of business operations at the national, regional, and territory level. DOF's balanced scorecard is also available to FDIC employees and presents performance measurement information about DOF operations, strategies, and initiatives.

FDIC Managers' Use of Performance Information Varies

We found that FDIC managers use some performance measurement processes more than others to make management decisions and to manage their programs. We interviewed eight senior managers to determine whether they find GPRA, CPO, and balanced scorecard measures useful and to what extent they use performance information in managing their day-to-day operations. Most senior managers commented that the government-mandated GPRA measures were not as useful as the internally-focused CPOs. In addition, while some divisions and offices have developed scorecards to manage their daily operations, implementation of scorecard efforts has been uneven.

Usefulness of GPRA

GAO has reported that the benefit of collecting performance information is only fully realized when this information is actually used by managers to bring about desired results.⁷ Most senior FDIC managers reported that they do not find GPRA APP information useful and do not use GPRA annual performance goals to manage their programs. One FDIC senior manager told us that FDIC participates in GPRA primarily because the Corporation is statutorily required to do so. Further, a representative from one business line division told us that GPRA is not used to manage and monitor division programs. Instead, this representative uses the division's balanced scorecard to manage programs.

Although many FDIC managers understand and use results-oriented management concepts in their day-to-day activities, such as strategic planning and performance measurement, they do not always connect these concepts to the requirements of GPRA. In one instance, an FDIC manager was not aware of the annual performance goals for his organization. There also appeared to be uncertainty among some FDIC managers on whether certain goals were GPRA- or CPO-related.

Notwithstanding, several managers stated that they do use annual performance goals to manage their operations. For example, one representative from a business line division reported using an annual performance goal to manage operations. In addition, a senior manager from another business line division stated that it varied from year-to-year as to which goals his office used to manage day-to-day operations. For 2006, his office managed by the CPOs. However, he stated that there was alignment between those CPOs and the annual performance goals.

A senior DOF official noted that although Corporation managers may respond that they do not use annual performance goals, the information underlying these goals is critical to the achievement of the FDIC's mission and thus very important to Corporation managers. For example, the indicator and target for the Supervision Annual Performance Goal #1 requires the FDIC to conduct 100 percent of required risk management examinations in accordance with statutory requirements. In the senior DOF official's view, FDIC's planning process is fully integrated with the internal management processes of the business divisions, and the annual performance goals reflect the mission priorities of the FDIC to such an extent that FDIC managers do not see the annual performance goals as being separate from FDIC mission priorities.

Corporate Performance Objective Process

Since 2003, the FDIC has structured the CPOs consistent with the corporate priorities of **Stability** of the industry and the insurance funds, **Sound Policy** positions supported by substantive research and led by comprehensive deposit insurance reform legislation, and **Stewardship** of the Corporation and insurance funds to ensure the FDIC accomplishes its mission in the most efficient and effective manner possible. In 2007, the FDIC changed the corporate priorities to **Depositor Protection**, **Mission Support**, and **Resource Management**.

FDIC management has characterized the CPOs as "stretch goals" that the Corporation may not always meet and that the Corporation prefers to report internally. According to the prior FDIC Chairman who established the CPO process, these objectives must continually challenge the

⁷ GAO-05-927.

FDIC to achieve more, to reach for the higher bar, and to strive to change things, even in an environment in which the FDIC cannot fully control the outcome, in order to be the best organization it can be.

CPO Development and Reporting Process: FDIC executives propose CPOs for the upcoming budget year at an annual Planning and Budget Conference held in late September. This year we noted that the attendees were directed to develop CPOs that: (1) represented the priorities of the Corporation, (2) were balanced initiatives that were important for all employees and not just a few, and (3) were measurable. The executives' discussions were open, constructive, and strategic in nature. The proposed CPOs appeared to represent the most important issues facing the Corporation. The attendees classified some proposed CPOs that were narrowly focused objectives as divisional initiatives. The executives were receptive to developing CPOs that could be measured and were challenging, yet attainable.

Based on the Planning and Budget Conference discussions and guidance from the Chairman, DOF's CPPM section revised the proposed 2007 CPOs and redistributed them to division and office directors for final review. DOF presented the proposed CPOs and FDIC budget to the Chairman and the Board of Directors for review in November. The Chairman approved the CPOs in early December at the same time that the Board approved the FDIC's budget.

Once approved, the Corporation determines the divisions and offices responsible for the CPOs and identifies detailed action items and milestones necessary to achieve the objectives. Divisions and offices are required to submit performance results to DOF on a quarterly basis. DOF prepares a corporate quarterly performance report on program performance results based on the information submitted by the divisions and offices. This report provides the basis for a formal Quarterly Performance Review that the COO and CFO conducts with all division and office directors.

FDIC Manager Views on the Usefulness of CPOs: Virtually all of the senior FDIC managers that we interviewed responded that the CPO process was effective and each manager used these measures to manage their operations. However, one manager thought that the CPO process was too project-oriented and not program-oriented. This manager noted that under the CPO process, executives report that their divisions completed a project but not whether the project made the operation better.

Further, according to FDIC Circular 2200.1, *Management and Executive Compensation, Incentive, Benefits, and Performance Management Programs*, dated October 13, 2005, executive manager pay and performance is directly tied to the Corporation's level of success in meeting corporate goals and objectives and is one element considered by the Chairman at the end of the year in establishing an annual pay increase and bonus pool for executive and corporate managers. This connection to executive pay creates an additional incentive to achieve positive performance results.

Opportunities for Streamlining CPO Reporting: The number of CPOs and underlying initiatives has fluctuated each year. The FDIC has significantly reduced the number of CPOs and performance initiatives since 2004. For 2006, the FDIC established 15 CPOs with 36 associated initiatives to accomplish the objectives. For 2007, the Chairman approved 17 CPOs with 81 initiatives, in the following corporate priorities:

- Depositor Protection: 6 CPOs and 33 related CPO initiatives
- Mission Support: 6 CPOs and 28 related CPO initiatives

- Resource Management: 5 CPOs and 20 related CPO initiatives.

Several managers commented that reporting on the CPO initiatives can be a burdensome and arduous process. The quarterly report is a lengthy document that was approximately 50 pages during the 2006 quarterly reporting process. DOF is researching the possibility of a Web-based technical solution to improve the reporting process. Because the number of CPO initiatives has more than doubled for 2007, performance reporting will likely be more intensive.

The FDIC's Implementation of Balanced Scorecards

Certain FDIC divisions and offices have implemented balanced scorecards to measure performance against meaningful quality, timeliness, and customer service benchmarks. These divisions and offices are at varying levels in implementing their scorecards. Further, some divisions and offices have opted not to develop scorecards. While there needs to be flexibility in scorecard design to meet individual divisional needs, the COO and CFO could provide more high-level corporate guidance on the appropriate use of scorecards and how scorecards should integrate with the FDIC's other performance measurement processes.

Scorecards are intended to improve current performance measurement systems by providing alternatives to managing organizational performance exclusively through financial measures. Scorecards should be aligned with an entity's goals and strategies by developing a strategy map of the organization's strategic objectives.

DSC, in particular, uses the balanced scorecard to monitor and manage day-to-day operations at regional and field offices. In 2003, DSC implemented its initial scorecard which focused primarily on operational measures such as average hours per exam. In November 2005, DSC implemented its new balanced scorecard that combines internal productivity with other important factors to create a balanced approach focused on strategic objectives.

As part of a 2005 CPO, OERM established a project plan for divisions to develop and pilot test a multi-dimensional scorecard to measure performance. The project plan stated that it was designed to support the development of a corporate-wide balanced scorecard to be operational by September 30, 2005.⁸ OERM also developed parameters for divisions to follow in developing their scorecards:

- divisions were to follow the balanced scorecard approach in developing their scorecards;
- division scorecards were to be aligned with corporate and division goals and strategies;
- divisions were to produce their scorecard on a monthly basis, though some measures could be reported on a quarterly or yearly basis;
- divisions were to strive to measure outcomes, rather than just outputs and efficiency;
- divisions were not required to link scorecard results to employee pay in 2005; and
- divisions did not need to develop or acquire new software to automate their scorecards.

We reviewed the 4th quarter 2005 corporate CPO performance report and noted that the OERM project manager made a presentation to senior management for the corporate-wide scorecard program. This presentation suggested the Corporation integrate the scorecards with other performance measurement processes. For example, the scorecard would consist of a

⁸ In technical comments to our draft report, DOF noted that the CFO informed OERM at the outset of the project that a corporate-level scorecard was outside the scope of OERM's assignment and should not be pursued.

combination of various measures/targets that are included in the FDIC APP and certain initiatives that are included as CPOs.

The 4th quarter corporate CPO performance report also indicated the divisional scorecard initiative was completed as of October 31, 2005 and that no corporate wide scorecard program would be pursued at that time. OERM stated that senior executive management has not made the scorecard mandatory for all FDIC divisions and offices. As a result, the Corporation's divisions are at various stages in implementing balanced scorecards as shown in Table 1.

Table 1: Status of Scorecard Efforts by Division

Division/Office	Status
DSC	Balanced scorecard implemented in regional and field offices in 2003 and revised in November 2005.
DIR	Balanced scorecard has been implemented in certain branches of DIR.
DRR	Balanced scorecard initiative is in process. Implementation expected in 2007.
DOF	Balanced scorecard implemented in September 2005.
DIT	Balanced scorecard has been implemented.
DOA	Balanced scorecard implemented in one branch of DOA.
Legal	Has not implemented a balanced scorecard. Efforts have been made to establish a draft scorecard.
OERM	Balanced scorecard has been implemented.

Source: Results of OIG interviews with division representatives.

Managers in those divisions that implemented the scorecard characterized it as an important management tool. However, to date, scorecard implementation has been uneven and development of a corporate-wide balanced scorecard is uncertain. While there needs to be flexibility in scorecard design to meet individual divisional needs, the COO and CFO could provide greater structure to guide division and office scorecard efforts.

Recommendation

We recommended that the Director, OERM:

1. Coordinate with DOF, the COO, and the CFO, to provide high-level direction on the appropriate use of balanced scorecards, including addressing whether there is a need for a corporate-wide scorecard and how divisional and office scorecards should integrate with the FDIC's other performance measurement processes.

The FDIC's Government Performance and Results Act Process Could Be Enhanced

We concluded that the FDIC is technically meeting the requirements of GPRA by developing a strategic plan, APP, and PAR, and these documents generally contain information required by the GPRA legislation and OMB. Notwithstanding, we identified opportunities to enhance the APP and PAR to increase transparency, improve corporate accountability, and provide information to aid in congressional decision-making, all key purposes of the GPRA legislation, by:

- establishing and documenting a process for determining what initiatives should be reported in the APP and PAR,
- including goals for the FDIC's support divisions and offices,
- establishing outcome performance measures instead of output measures,
- enhancing the effectiveness of FDIC program evaluations.

Our observations on these areas are discussed in the following sections.

Legislative Requirements for GPRA Plans and Performance Reports

We evaluated the FDIC Strategic Plan, APP, and PAR against applicable legislative requirements.

Strategic Plan: Section 3 of GPRA requires the FDIC to develop and submit to Congress and OMB by September 30, of each year, a 5-year strategic plan covering the FDIC's activities that are listed in the annual budget of the United States. We reviewed the FDIC's Strategic Plan to determine whether it contained the following required elements:

1. A comprehensive agency mission statement;
2. Agency-wide long-term goals and objectives for all major functions and operations;
3. Approaches (or strategies) and the various resources needed to achieve goals and objectives;
4. A description of the relationship between long-term goals and objectives and the annual performance goals;
5. An identification of the key factors, external to the agency and beyond its control that could significantly affect achievement of the strategic goals; and
6. A description of how program evaluations were used to establish or revise strategic goals and a schedule for future evaluations.

We determined that the FDIC's Strategic Plan addressed most of the above items. However, the strategic plan did not clearly describe how program evaluations were used to establish or revise strategic goals or provide a schedule for future evaluations. This issue is discussed in greater detail later in this report.

Annual Performance Plan: Section 4 of GPRA requires that the FDIC prepare and submit to the OMB an APP that covers each program activity set forth in the FDIC's budget. The FDIC's 2006 APP includes strategic goals, strategic objectives, and annual performance goals. The goals address the FDIC's major business lines of Insurance, Supervision, and Receivership Management as outlined in Table 2.

Table 2: Overview of 2006 Annual Performance Plan Goals and Objectives

Program	Strategic Goals	Strategic Objectives	Performance Goals
Insurance	1	3	5
Supervision	2	3	10
Receivership Management	1	3	4
Total	4	9	19

Source: OIG Review of Annual Performance Plan.

We reviewed the 2006 APP and confirmed that it contained the following six key elements required by GPRA:

1. Goals established to define the level of performance to be achieved;
2. Goals expressed in an objective, quantifiable, and measurable form;
3. A description of the operational processes, skills and technology, and the human capital information or other resources required to meet the performance goals;
4. An identification of the performance indicators to be used in measuring and assessing the outputs, service levels, and outcomes of each program activity;
5. A description of the basis for comparing actual program results with the established goals; and
6. A description of the means to be used to verify and validate measured values.

In addition, the APP has a separate section, *Effective Management of Strategic Resources*, which discusses management of financial resources, human capital management, and information technology resources.

Performance and Accountability Report: GPRA also requires that the FDIC submit a PAR to the President and the Congress that compares actual performance to the annual performance goals. We reviewed the FDIC's 2005 PAR and confirmed that it substantially addressed the following required items:

1. A discussion of the success of achieving the performance goals of the fiscal year;
2. An evaluation of the [upcoming] APP relative to the performance achieved toward the performance goals in the fiscal year covered by the report;⁹ and
3. An explanation, when a performance goal has not been met, why the goal was not met; plans and schedules for achieving the goal; if a goal is impractical or infeasible, why that is the case and what action is recommended; and a summary of findings for those program evaluations completed during the fiscal year covered by the report.

Alignment and Transparency of Performance Measures

Although certain CPOs are aligned with APP goals and FDIC strategic objectives, a number of important FDIC issues with associated CPOs that would likely be of interest to the public and the Congress are not addressed in the APP. We concluded that FDIC could benefit from a more structured, documented process for determining which initiatives should be reported in the APP, as CPOs, or in both sets of performance measures. We compared the 2006 CPOs with the 2006 GPRA performance goals and found that the measures within the two separate sets of

⁹ The PAR technically did not address this item. However, a senior DOF official explained that this requirement did not have as much relevance for the FDIC as the requirement has for appropriated agencies. This is because the timing of the issuance of FDIC's budget and APP is more closely aligned than appropriated agencies' budgets and APPs.

performance measurement structures were aligned (linked) to some degree but were not aligned in a number of cases as shown in Table 3.

Table 3: Alignment of 2006 CPOs and APP

FDIC 2006 Strategic Priorities	Number of FDIC 2006 CPO Initiatives	CPO Initiatives Addressed in APP Annual Performance Goals, Indicators, Targets, Means & Strategies	CPO Initiatives Addressed in APP Effective Management of Strategic Resources Section	CPO Initiatives Addressed in APP Appendix	CPO Initiatives Not Addressed in APP
Sound Policy	8	6	1	0	1
Stability	15	13	0	2	0
Stewardship	13	1	11	0	1
Total	36	20	12	2	2

Source: OIG review of 2006 CPOs and 2006 APP.

As shown, the FDIC addressed 12 of the CPOs in the *Effective Management of Strategic Resources* narrative section of the APP; however, this section does not include goals, indicators, or targets for these initiatives.

We also reviewed the 2007 CPOs and draft 2007 APP and identified several important issues for which the FDIC had established CPOs that were not addressed in the APP. In our view, many of the 2007 CPOs involve initiatives that would likely be of interest to the public or the Congress. Table 4 presents a comparison of important issues facing the FDIC and whether they are included in the draft 2007 APP or 2007 CPOs.

Table 4: Analysis of 2007 Performance Measures for Important Issues Facing the FDIC

Issue	Addressed in Draft 2007 Corporate Performance Objectives?	Included in Draft 2007 Annual Performance Plan as an Annual Performance Goal (APG), Indicator, or Target?
New Deposit Insurance Assessment System Implementation	YES	YES Insurance Program (APG 1.3-1)
FDIC Actions to Address Risks Posed by Different Types of Industrial Loan Companies	YES	NO
Restructuring the Large Insured Depository Institution Analysis Program	YES	NO
Enhancing the FDIC's Ability to Insure, Supervise, & Resolve Large/Complex Insured Institutions	YES	PARTIALLY ADDRESSED Insurance Program (APG 1.1-1) 1 of 6 CPO initiatives addressed
Protecting the U.S. Banking System Against Terrorist Financing, Money Laundering, & Other Financial Crimes	YES	PARTIALLY ADDRESSED Supervision Program (APG 2.1-1) 1 OF 3 CPO initiatives addressed
Expanding Program and Strategy Implementation to Encourage & Promote Broader Economic Inclusion in U.S. Banking System	YES	YES Supervision Program (APG 3.2-2) 4 of 6 CPO Initiatives addressed
Reducing Regulatory Burden While Maintaining Consumer Protection & Safety & Soundness Safeguards	YES	NO

Issue	Addressed in Draft 2007 Corporate Performance Objectives?	Included in Draft 2007 Annual Performance Plan as an Annual Performance Goal (APG), Indicator, or Target?
Pursuing Research Agenda to Identify, & Assist in Managing/ Mitigating Current & Emerging U.S. Banking System Risks	YES	PARTIALLY ADDRESSED Insurance Program (APG 1.2-2) 1 of 6 CPO Initiatives addressed
Developing Effective Succession Management Strategies	YES	NO *
Ensuring Necessary Workforce Skills to Effectively Address Emerging Safety & Soundness & Compliance Risks	YES	NO *
Strengthening Data Security & Privacy Protections Including a Coordinated Data Security Approach with Insured Financial Institutions	YES	NO *

Source: OIG review of Draft 2007 Annual Performance Plan and 2007 CPOs.

* These issue areas were discussed in the *Effective Management of Strategic Resources* section of the APP; however, this section does not include goals, indicators, or targets.

As discussed earlier, the CPOs are internal goals established annually through a dialogue between the Chairman and FDIC senior executives. Consequently, information about the CPOs or related performance results is not distributed publicly outside of the FDIC. According to a CPPM representative, CPOs are intended to be challenging, may not always be readily achievable, and for this reason the Corporation prefers to report on CPOs internally.

We discussed the issue of transparency with several FDIC senior level executives. These executives stressed that the internal nature of the CPOs was critical to the success of this performance measurement effort. One executive noted that CPOs are often new initiatives for the FDIC that are still in the developmental stage and that are not ready for public consumption. This executive noted that most of these initiatives result in notices of proposed rulemaking through the Federal Register which achieves the goal of transparency and provides the public with a formal opportunity to comment on proposed initiatives, at the point that the FDIC is ready to unveil those issues publicly.

In order to strike the right balance between those organizational goals that are made public and those that are kept internally, the FDIC could develop a documented process for determining whether initiatives warrant recognition under GPRA, should be measured as CPOs, or should be included in the APP and the CPOs. Ideally, this process would include criteria or considerations for evaluating whether to measure the initiative internally or externally. Such criteria could include whether: an initiative impacts multiple agencies, an initiative would spark Congressional or public interest, or an initiative is still in the developmental stages.

Recognition of Mission Support Activities and Operations

GPRA requires that the FDIC prepare and submit to the OMB an APP that covers each program activity set forth in the FDIC's budget. OMB Circular A-11 also gives agencies the discretion to omit support-type activities and operations. The FDIC's budget includes line items for its mission-related activities of Insurance, Supervision, and Receivership Management and other program activities such as general and administrative and working capital outlays. The general and administration category includes expenses for human capital and information technology.

While some of the FDIC's 2006 annual performance goals address how the FDIC will use human capital to achieve individual goals, the Corporation has not established separate goals and objectives for mission support initiatives. Rather, the FDIC's APP goals and objectives are limited to business line (DSC, DIR, DRR) areas and thus, do not include goals or objectives related to areas such as human capital (e.g., succession planning or the corporate employee program) or system development efforts (e.g., the New Financial Environment, Central Data Repository, or the Claims Administration System).¹⁰ Moreover, the FDIC's APP does not include goals or objectives related to any of the President's Management Agenda initiatives (e.g., human capital, competitive sourcing, integration of budget and performance information, etc...). The FDIC has a number of CPOs and related initiatives for many of these mission support activities.

A senior DOF official noted that OMB Circular A-11 allows agencies discretion in including mission support activities and operations in agency strategic plans and that the FDIC is only required to report those goals and objectives related to the major mission activities of Insurance, Supervision, and Receivership Management. We confirmed that Section 210 of OMB Circular No. A-11, *Preparing and Submitting a Strategic Plan*, allows such discretion.

In this regard, in June 2000, the President issued a memorandum to the heads of executive departments and agencies detailing actions to further improve the management of human capital. Among other things, the memorandum directed agencies to clearly state specific human capital management goals and objectives in their strategic and annual performance plans.

We performed research to determine to what extent other federal agencies included goals and objectives for their support functions or organizations in their annual performance plans. Table 5 presents the results of our review of six federal agencies' APPs.

Table 5: Goals and Objectives Related to Mission Support Functions at Other Agencies

Agency Reviewed	Coverage of Support Functions	Comments
Federal Reserve Board	Yes	Goals and objectives related to planning and budget, human capital, and diversity.
Securities and Exchange Commission	Yes	Goals and measures related to human capital, IT, and SEC's financial statements.
Pension Benefit Guaranty Corporation	Yes	Objectives related to human capital strategies, effective use of IT tools, and financial management systems.
Social Security Administration	Yes	Objectives and measures related to financial statements and human capital.
Federal Communication Commission	Yes	Goals and objectives related to human capital strategies.
Environmental Protection Agency	No	No goals or objectives identified for support-type functions.

Source: OIG research of agency APPs and PARs.

We believe that the FDIC could make its APP and PAR more informative and provide greater transparency about internal FDIC operations to the Congress and the public by including goals and objectives related to key initiatives within the divisions of Administration, Finance, and

¹⁰ The APP does discuss certain system development initiatives, such as the Claims Administration System in the means and strategies narrative section. However, the APP does not include goals, targets, indicators, or cost information for these system development efforts.

Information Technology. These divisions contribute to the success of the FDIC achieving its mission and require a substantial outlay of funds.

Output Versus Outcome Measures

Performance measures can be expressed as output measures, outcome measures, or some combination of the two to reflect the agency's intended performance. Output goals refer to the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative manner. Outcome measures refer to an assessment of the results of a program activity compared to its intended purpose and are generally qualitative in nature. GPRA performance reporting allows agencies to use a range of performance measures but contains a specific emphasis on the use of outcome measures.

Our assessment of the FDIC's 2006 GPRA goals found that most of the goals are output-related goals rather than outcome-oriented goals. Approximately 22 of 32 annual performance goals, targets, and indicators in the 2006 APP were output measures. For example, one of the performance goals for the Supervision business line is to "effectively meet the statutory mandate to investigate and respond to consumer complaints about FDIC-supervised financial institutions." FDIC established an indicator and target that responses are provided to 90 percent of written complaints within time frames established by policy. While this goal is a necessary and important measure, it does not measure whether responses were effective in resolving complaints. A more outcome-oriented measure would be to assess the customer satisfaction with the FDIC's resolution of complaints. The FDIC began gathering such qualitative information and could use the information in support of an outcome-oriented annual performance goal.

The GAO acknowledged that agencies found it challenging to distinguish between outputs and outcomes in the early implementation of GPRA.¹¹ GAO found that agencies were struggling with the basic meaning of the concept of outcomes and some agencies argued that the nature of their mission made it hard to develop measurable outcomes.

We encourage the FDIC to take steps to develop and state its performance expectations in outcome-oriented terms when developing its annual performance goals.

Program Evaluations

We identified opportunities for adding more structure and independence to the GPRA-related program evaluations performed by OERM to include a schedule for program evaluations, description of the evaluation methodology performed in program evaluations, and a discussion of how the Corporation uses performance evaluations to improve the performance measurement process.

Although GPRA does not require federal agencies to conduct formal program evaluations,¹² it does require agencies to (1) measure progress toward achieving their goals, (2) identify which external factors might affect such progress, and (3) explain why a goal was not met. Strategic plans are to describe the program evaluations that were used in establishing and revising goals and to include a schedule for future evaluations. Agencies are to summarize program evaluation findings in the PAR.

¹¹ GAO Report No. 04-38 *Results Oriented Government*, dated March 2004

¹² Based on GAO Report No. GAO/GGD-00-204 dated September 2000

GAO has reported that program evaluations are important for assessing the contributions that programs are making to results, determining factors that are affecting performance, and identifying opportunities for improvement. In 2000 GAO reported that evaluations could:

- provide data on program results that were otherwise unavailable,
- prepare the groundwork and pilot-test future performance measures,
- validate the accuracy of existing data,
- address operational concerns about a program,
- explain the reasons for observed performance or identify ways to improve performance, and
- assess a program's net impact or contributions to agency results.

FDIC Circular 4010.3, *FDIC Enterprise Risk Management Program*, delineates that OERM is responsible for conducting program evaluations of the Corporation's business lines as required under GPRA. OERM officials indicated that OMB Circular A-11, Section 230.2 (j) is the guidance used to perform its program evaluations. Section 230.2 (j) specifies that an agency's annual report include a summary of the findings and recommendations of the program evaluations completed during the fiscal year, and references question 2.6 of OMB's Performance Assessment and Rating Tool (PART)¹³ guidance for more information on program evaluations.

While PART is not applicable to the FDIC, PART does provide guidance and criteria for program evaluations. The guidance conveys that program evaluations must meet four criteria: high quality, sufficient scope, independent, and conducted on a regular basis to support program improvements. The evaluations should apply evaluation methods that provide evidence of a program's effectiveness. The most significant aspect of program effectiveness is impact—the outcome of the program, which otherwise would not have occurred without the program. The evaluations should have sufficient scope to improve planning with respect to the effectiveness of a program. To be independent, the evaluations should be conducted by non-biased parties with no conflict of interest. The evaluations must also be conducted on a recurring basis based on the needs and resources of the specific programs, but all programs should have plans to repeat evaluations. Finally, to provide evidence of results, an evaluation must have been completed or at minimum have produced some interim findings.

We reviewed the FDIC's current *2005-2010 Strategic Plan*, the 2006 APP, and the 2005 PAR for discussion of program evaluations. Although the Strategic Plan made reference to a future evaluation schedule, there was no detailed discussion of the program evaluations intended to be completed over the planning period, and the plan did not address how the FDIC intended to use evaluations to establish new or to revise existing strategic goals, as envisioned by GPRA. The 2006 APP Appendix provided a summary discussion of the purpose of program evaluations and areas reviewed in 2005 as well as areas planned for review in 2006. The 2005 PAR included a summary of findings on DSC program evaluations.

Additionally, we reviewed OERM's program evaluation reports for 2003 through 2005 and interviewed OERM personnel to determine how program evaluations were used for performance reporting and what circumstances led OERM to conduct these evaluations. OERM officials characterized program evaluations as an ongoing management process where OERM

¹³ PART is a diagnostic tool that was developed to assess and improve program performance so that federal agencies can achieve better results.

participates with the driver divisions' internal review staff to review business line programs. OERM considers joint participation critical to fully understanding the program being evaluated and contends that it has no impact on OERM's independence in conducting the evaluations. We confirmed that this description of OERM's program evaluation approach was consistent with the 2006 APP discussion of the program evaluation function.

Evaluations conducted by the program itself (e.g., program internal review groups) are generally not considered independent under PART provisions. PART guidance states that for evaluations to be independent, nonbiased parties with no conflict of interest, for example, GAO or an Inspector General Office, should conduct the evaluation. OMB guidance also recognizes a contracted third party or independent program evaluation office as possibly being sufficiently independent, subject to examination on a case-by-case basis. Although OERM views the joint program evaluations with internal review staff to be independent, such arrangements may not provide the independence that OMB envisioned.

We also concluded that OERM could add more structure to its program evaluation efforts. First, we noted that OERM does not develop an annual program evaluation schedule or staffing requirements for its program evaluation work. OERM told us that it assigns one employee 25 percent of the time during the year to perform program evaluations. OERM issues a program evaluation report covering one of the Corporation's three business lines each year.

Second, OERM could do more to define the scope and methodology of the evaluation work performed. For example, the 2005 DSC evaluation report methodology section listed documents reviewed but did not include a description of procedures performed. The report provided information about how DSC processes worked but did not conclude on how well these processes were operating or whether they were achieving desired outcomes.

Finally, although program evaluations of business line program areas are repeated on a cyclical basis, we could not readily determine how OERM's program evaluations were used to improve program performance. We observed that the program evaluation reports contained no recommendations for program improvement. OERM indicated that it identifies program issues and resolves these issues through meetings without reporting formal findings and recommendations. For example, OERM officials stated that, as part of OERM's 2006 program evaluation effort, it charted and identified new and changed processes associated with Deposit Insurance Reform as well as initiated the development of key procedures for the Division of Insurance and Research to complete to implement the reforms.

In technical comments to our draft report, DOF indicated that our description of OERM's program evaluation approach was too narrow. DOF noted that the 2007 APP provides a clear and succinct explanation of the approach to program evaluation currently being pursued by OERM. We confirmed that the 2007 APP contains the following expanded description of OERM's program evaluation approach.

The FDIC's Office of Enterprise Risk Management (OERM) has primary responsibility for the program evaluation function within the Corporation's program. It carries out this role in several ways:

- It performs studies and evaluations of selected programs, making appropriate recommendations to improve their operational effectiveness and monitoring the implementation of accepted recommendations.

- It reviews the results of program studies and evaluations undertaken by other independent organizations, such as the GAO and the Office of the Inspector General (OIG), to identify key recommendations to improve the operational effectiveness of these programs and monitor the implementation of accepted recommendations.
- It reviews the results of program studies and evaluation studies undertaken by independent internal review units within selected FDIC divisions to identify key recommendations to improve the operational effectiveness of these programs and monitor the implementation of accepted recommendations. In some cases, it may also partner with such units to conduct joint program evaluations.

As discussed in greater detail in the following section of our report entitled, Corporation Comments and OIG Evaluation, it is our view that the expanded approach described in the 2007 APP takes into account activities that are more closely related to OERM's responsibilities under the FDIC's internal control program. Further, these efforts have primarily been focused on mission-support activities for which the Corporation has elected not to establish annual performance goals. Accordingly, we concluded that recommendation 3 stated below still warranted consideration by management.

Recommendations

We recommended the Director, Division of Finance:

2. Enhance the Annual Performance Plan and Performance Accountability Report to increase transparency, public accountability, and information to aid in congressional decision-making by developing a process and procedures for determining which corporate performance objectives or initiatives deserve GPRA recognition.

We recommended the Director, Office of Enterprise Risk Management:

3. Take steps to add greater independence and structure to GPRA program evaluation efforts. Such structure could include developing an annual program evaluation schedule, defining the scope and methodology of evaluation procedures performed, and reporting recommendations for program improvements.

CORPORATION COMMENTS AND OIG EVALUATION

The DOF and OERM Directors, with the concurrence of the Deputy to the Chairman and CFO (hereinafter referred to as management) provided a written response, dated April 5, 2007, to a draft of this report. The response is presented in its entirety in Appendix II. In addition, DOF management provided clarifications and editorial comments, which we have incorporated in our final report, where appropriate. The Corporation's response noted that management carefully considered the three recommendations presented in the report, but after discussions with the Chairman, did not plan to adopt any of the specific recommendations presented. The response further indicated that management has taken or plans to take certain actions that may address some of the concerns underlying OIG recommendations.

Recommendation 1 involved developing a process and procedures for determining which CPOs deserved GPRA recognition to increase transparency, public accountability, and information to aid in Congressional decision-making. Management responded that it has always made an intentional effort to ensure that the two sets of performance measures were appropriately aligned and that the Corporation's senior leaders have been specifically asked each year to consider whether key CPOs should have a parallel APG in the Corporation's Annual Performance Plan. The response also identified a potential modification that may enhance this process. Historically, the APGs and CPOs were presented to the Chairman for consideration at separate times. Going forward, the proposed 2008 CPOs and APGs will be presented to the Chairman simultaneously in order to facilitate a more holistic review of the two sets of proposed performance measures and to ensure that they are appropriately aligned. Management believes that this change in the timing of the presentation of the APGs to the Chairman is consistent with the OIG's concerns about improved alignment and transparency of the two sets of performance measures.

The response also noted that the Chairman is giving consideration to the OIG's suggestion that the FDIC resume publication of the quarterly *Letters to Stakeholders* to increase transparency.

Regarding the inclusion of mission support activities and operations in the APP, management noted that the FDIC will soon be reporting to the Office of Personnel Management on a variety of performance metrics as part of a human capital planning process that is being established by regulation. Thus, in management's view, establishing and reporting on human capital-related annual performance goals would be unnecessarily duplicative.

The changes proposed by management address the intent of our recommendation by establishing a process for determining what initiatives warrant GPRA recognition and should increase the transparency of CPO results. As a result, we consider the recommendation closed. However, we encourage the FDIC to consider documenting this process in FDIC Circular 4100.4, *Corporate Planning and Budget Processes*, dated March 21, 2007. Doing so would help the Corporation (1) address any scrutiny it may receive from external parties regarding which performance measures and initiatives are included in the APP and how those determinations were made and (2) institutionalize the process so that it is more likely to be repeated as changes occur in senior corporate leadership.

Recommendation 2 involved providing high-level direction on: the appropriate use of balanced scorecards, whether there is a need for a corporate-wide scorecard, and how division and office scorecards should integrate with other performance measurement processes. Management indicated that OERM is nearing completion of a final report on the balanced scorecard pilot project and had briefed the Chairman on the report findings. The response indicated that the

Chairman had endorsed OERM's recommendations that no corporate scorecard be pursued at this time and that use of the scorecarding tool be optional for all divisions/offices. The Chairman also confirmed the current requirement that all divisions and offices be required to have annual division/office plans/performance objectives that are aligned with and supplement the corporate goals and objectives. The response indicated that this guidance would be communicated to all division/office directors by the COO and CFO following issuance of OERM's report.

Although management stated that it did not plan to adopt this specific recommendation, the actions taken by the Chairman provide the high-level direction on the appropriate use of balanced scorecards as recommended in the draft report. Accordingly, management's actions meet the intent of this recommendation, and we consider it closed.

Recommendation 3 involved adding greater independence and structure to GPRA program evaluation efforts. Management responded that it is comfortable with the current structure of and approach to the program evaluation function and believes that this approach complies fully with GPRA requirements and is consistent with the spirit of PART requirements for "independent" program evaluations. The response notes that the FDIC's approach to program evaluations has changed over the past 2 years and OERM now relies on a broad range of program studies and evaluations in performing the program evaluation function, including studies by the GAO, OIG, and independent internal review units in program offices as well as studies performed by OERM itself. Consistent with the intent of GPRA, the FDIC states that this information is directly used to make improvements to program performance and results.

It is our view that the expanded description of OERM's program evaluation approach that was included in the 2007 APP also encompasses OERM's responsibilities under the FDIC's internal control program. While the purpose of program evaluations and internal control reviews can overlap, the focus of the two is generally different. Program evaluations, as described earlier, are results-oriented and address whether agency goals and objectives are being addressed. Internal control reviews, on the other hand, are oriented towards evaluating operations, systems, and procedures to provide assurance that laws and regulations are being followed and data and reporting are reliable; and to minimize exposure to waste, fraud, and mismanagement. Moreover, OERM's internal control-related efforts have primarily focused on mission-support type functions—IT projects, procurement, equal employment complaint processing—for which the Corporation has elected not to develop annual performance goals. We confirmed that OERM's GPRA-related work during 2006 consisted of OERM staff providing support in the documentation and analysis of current business processes associated with the implementation of deposit insurance reform.

After considering management's response and clarifications, we concluded that the program evaluation function could still benefit from greater structure and does not meet the definition of "independent" as defined by PART guidance. While the individual internal review units play an important role in ensuring that divisions and offices meet their goals and objectives, these units are not organizationally independent from their parent divisions and offices. Further, we understand that OERM will not be issuing program evaluation reports for 2006 evaluation efforts or going forward. Rather, OERM will discuss any findings with division representatives at the time of fieldwork and will continue to report program evaluation findings in the Corporation's annual Performance and Accountability Report. This action further reduces the structure, transparency, and possibly the effectiveness of the program evaluation function.

Nevertheless, as discussed earlier, GPRA does not specifically require agencies to conduct formal program evaluations. Thus, the FDIC's approach to program evaluations, despite our

concerns, does not violate GPRA. Accordingly, we are accepting management's decision on this recommendation, and we consider it closed.

OBJECTIVE, SCOPE, AND METHODOLOGY

This assignment was a follow-on evaluation from earlier work that our office performed related to the FDIC's corporate planning and budget process. The objective of this review was to evaluate the FDIC's performance measurement processes used to monitor corporate performance. We evaluated the performance measurement processes under the Government Performance and Results Act of 1993 (GPRA), the FDIC's Corporate Performance Objective (CPO) process, and the FDIC's Balanced Scorecard Initiative. We evaluated: (1) whether the GPRA, CPO, and scorecard measures are aligned with the FDIC's strategic goals and objectives, (2) FDIC management and stakeholder views on the usefulness of performance measures in monitoring corporate performance, (3) whether there are opportunities for streamlining or combining the FDIC's performance measurement processes, and (4) whether performance results are transparent to internal and external corporate stakeholders.

Scope and Methodology

We performed fieldwork in FDIC divisions located in Washington, D.C., and the DSC Dallas Regional Office. In addition, we performed fieldwork in one office, OERM, responsible for facilitating the implementation of the 2005 CPO initiative of developing a balanced scorecard and performing program evaluations as part of GPRA. We performed our evaluation from September 2006 through December 2006, in accordance with the *Quality Standards for Inspections*. To accomplish our objectives, we performed the following.

- Identified and reviewed applicable laws, regulations, criteria on planning and performance monitoring and reporting:
 - the GPRA of 1993;
 - OMB Circular A-11;
 - FDIC Directive 4100.2, *Verification and Validation Guidelines for Performance Planning and Reporting*, dated November 30, 2001;
 - FDIC Draft Directive, *Corporate Planning and Budget Processes; not dated or formally issued* (upon issuance of this directive FDIC Directive 4100.1, FDIC's 2001 *Corporate Planning and Budget Guide*, dated November 2, 2000, will be rescinded and superseded) ;
 - FDIC Directive 4010.3, *FDIC's Enterprise Risk Management Program*, dated September 25, 2006; and
 - DIT Policy Memorandum 03-009: *Information Technology (IT) Performance Measurement Program*, dated September 30, 2003.
- Researched and reviewed:
 - the National Performance Review's June 1997 Benchmarking Study Report, *Serving the American Public: Best Practices in Performance Management*;
 - GAO Report No. GAO-06-28 dated October 2005 entitled, *Performance Budgeting: PART Focuses Attention on Program Performance, but More Can Be Done to Engage Congress*;
 - GAO Report No. GAO-06-67 dated October 2005 entitled, *Program Evaluation: OMB's PART Reviews Increased Agencies' Attention to Improving Evidence of Program Results*;
 - GAO/GGD-00-204 dated September 2000 entitled, *Studies Help Measure or Explain Performance*;

- GAO Executive Guide: *Effectively Implementing Government Performance and Results Act*, and
 - President's Management Agenda's report dated August 2004 entitled, *The Federal Government is Results-Oriented, a Report to Federal Employees*.
- Reviewed the FDIC's:
 - 2005-2010 Strategic Plan;
 - 2005 and 2006 APP and draft 2007 APP;
 - 2005 PAR and draft 2006 PAR;
 - 2005, 2006 CPOs and proposed 2007 CPOs;
 - 2005 and 2006 Quarterly Performance Reports;
 - 2006 balanced scorecards for DSC, DIR, DRR, DIT, DOA, Legal Division, and DOF; and
 - 2006 Divisional Performance Objectives for DSC, DIR, DRR, DIT, DOA, and DOF.
- Obtained and reviewed prior related OIG evaluations:
 - July 2001, *Study of FDIC's Corporate Planning Cycle*, an OIG joint review with OERM; and
 - September 2005, *Follow-up Evaluation of the FDIC's Corporate Planning Cycle* (Report No. 05-032).
- Reviewed OIG's Office of Quality Assurance and Oversight 2004 and 2005 studies and analysis of the linkage of the FDIC's GPRA and CPO performance goals and objectives, and prepared a similar analysis for 2006;
- Reviewed copies of FDIC Legal Division legal opinions relating to the applicability of GPRA to FDIC, and interviewed FDIC Legal Division representatives about those opinions;
- Interviewed officials in DOF's CPPM Section, to determine (1) status of the new corporate directive on the FDIC's planning and budgeting process and (2) whether the CPO process would continue with the appointment of the new FDIC Chairman;
- Developed and used a standard questionnaire to conduct interviews with division and office planning representatives;
- Interviewed planning representatives of the FDIC headquarters divisions and OERM to gain an understanding of whether:
 - GPRA, the CPOs, and balanced scorecard performance measures aligned with the FDIC's strategic goals and objectives;
 - FDIC management and stakeholders viewed performance measures to be useful in monitoring corporate performance;
 - performance reporting was transparent to internal and external corporate stakeholders; and
 - the performance measurement processes could be streamlined or combined.
- Attended and observed the 2007 Corporate Planning and Budget Conference held on September 28, 2006;

- Obtained and reviewed a copy of OERM's 2005 OERM Program Evaluation report prepared as part of GPRA, interviewed OERM staff to obtain an understanding of the process for performing these evaluations, and assessed the extent the reviews are used in the Strategic and APP planning processes and whether the program evaluation process could be improved;
- Reviewed planning documents included in DOF's Budget Send and Budget Receive for 2007; and
- Reviewed and analyzed the strategic plans, APPs, and/or PARs for selected agencies to determine whether their performance goals addressed agency support-type operations.

Evaluation of Internal Controls

We gained an understanding of the control environment, corporate risk assessment, relevant control activities, information and communications flow, and monitoring of internal controls by reviewing the FDIC's processes for (1) strategic planning, annual performance planning, and reporting; (2) developing CPOs and related monitoring and reporting of performance results; and (3) developing division scorecard measures and monitoring and reporting of performance results for those scorecards. We assessed the control environment by interviewing corporate executives as well as senior and mid-level management officials in six divisions and one office. We reviewed applicable policies and procedures related to the FDIC's use of performance measures. We examined how the performance measures were defined through corporate risk assessments. We also reviewed the flow of information to determine whether employees at all levels of the Corporation understood their roles in achieving the corporate mission and objectives. Finally, we reviewed the monitoring of internal controls through the assessment of the usefulness and transparency of performance reporting. We used GAO's *Standards for Internal Control in the Federal Government* as a guide for evaluating internal controls.

CORPORATION COMMENTS



Federal Deposit Insurance Corporation
801 17th St. NW Washington, DC 20429-9990

Division of Finance

April 5, 2007

TO: Stephen M. Beard
Assistant Inspector General for Evaluations

THROUGH: Steven O. App [SIGNED]
Deputy to the Chairman and
Chief Financial Officer

FROM: Fred S. Selby [SIGNED]
Director, Division of Finance

James H. Angel, Jr. [SIGNED]
Director, Office of Enterprise Risk Management

SUBJECT: Response to Draft Report Entitled "Evaluation of the FDIC's
Use of Performance Measures (Assignment No. 2006-029)

We have reviewed the attached Office of Inspector General (OIG) draft report entitled *Evaluation of the FDIC's Use of Performance Measures* (Assignment No. 2006-029). We were especially pleased to note that your evaluation confirmed that the FDIC is in full compliance with all statutory and regulatory requirements related to the Government Performance Results Act (GPRA); that it is effectively using the performance information derived from its various performance management/measurement processes to make management decisions and improve program results; and that it employs a number of recognized "best practices" in the administration of its performance management system. As you know, we have diligently sought to improve the integration and effectiveness of our planning and performance management processes in recent years.

We have carefully considered the three recommendations presented in your report. After discussing them with the Chairman, we do not plan to adopt any of the specific recommendations presented. As indicated below, however, we have taken or plan to take certain actions that may address some of the concerns underlying those recommendations.

1. That the Director, DOF, enhance the Annual Performance Plan and Performance Accountability Report to increase transparency, public accountability and information to aid in congressional decision-making by developing a process and procedures for determining which corporate performance objectives or initiatives deserve GPRA recognition.

Management Response: During the annual senior management strategic planning conference, the Corporation's senior leadership works from division/office input to finalize

for presentation to the Chairman both proposed corporate performance objectives (CPOs) and proposed annual performance goals. We have always made an intentional effort to ensure that those two sets of performance measures were appropriately aligned. To that end, the Corporation's senior leaders have been specifically asked each year to consider whether key CPOs should have a parallel APG in the Corporation's Annual Performance Plan, and that process has almost always resulted in the addition of new APGs. In the 2007 planning process, that effort was also extended to the Chairman's review. In her initial review of the 2007 APGs earlier this year, Chairman Bair requested several adjustments to add items that had been proposed for inclusion only in the 2007 CPOs, and she added one final 2007 APG from the 2007 CPOs during her final review of the Corporation's 2007 Annual Performance Plan in February, just prior to its transmittal to the Congress.

However, we have identified a potential modification that may enhance our current process. Heretofore, the APGs and CPOs have been presented to the Chairman for consideration at separate times. Following a discussion with Chairman Bair, we have determined that the proposed 2008 CPOs and APGs will be presented to her simultaneously in order to facilitate a more holistic review of the two sets of proposed performance measures and to ensure that they are appropriately aligned. We believe that this change in the timing of the presentation of the APGs to the Chairman is consistent with the OIG's concerns about improved alignment and transparency of the two sets of performance measures.

In addition, the Chairman is giving serious consideration to the OIG's suggestion that the FDIC resume publication of the quarterly *Letters to Stakeholders*. As the OIG's draft report noted, that publication improved the transparency of many of the CPO initiatives in past years by publicly reporting their results. The FDIC's senior leadership (including the Chairman) continues to believe, however, that the Corporation realizes substantial benefits from the maintenance of a set of CPOs that are separate from the APGs and are not broadly publicized externally. Inclusion of all "significant" initiatives in the Annual Performance Plan would undermine the basic concept of "stretch" objectives that challenge the FDIC to pursue many important change objectives that would not be appropriate for inclusion in that document.

We also discussed with the Chairman the OIG's suggestion that APGs be included in the Annual Performance Plan for major human capital and other support initiatives, but have decided to continue with our present approach of discussing those initiatives in the "Effective Management of Strategic Resources" section of the plan without establishing specific performance goals, indicators, or targets. As the draft report notes, this approach is in full compliance with all regulatory requirements. Moreover, in the human capital area, the FDIC will soon be reporting to OPM on a variety of performance metrics as part of a Human Capital planning process that is being established by OPM regulation and will be mandatory for all covered agencies. The Annual Performance Plan will continue to address in narrative form the initiatives covered in more detail in the Human Capital Plan, but establishing and reporting on APGs in both venues would be unnecessarily duplicative.

2. That the Director, OERM, coordinate with DOF, the COO, and the CFO to provide high-level direction on the appropriate use of balanced scorecards, including addressing whether there is a need for a corporate-wide scorecard and how divisional and office scorecards should integrate with the FDIC's other performance measurement processes.

Management Response: OERM is nearing completion of a final report on the balanced scorecard pilot project initiated in 2005. It will note that there were varying degrees of applicability, benefits, enthusiasm, and success for scorecarding among the various divisions that were invited to participate in the pilot. The Chairman was recently briefed on these findings and endorsed OERM's recommendations that no corporate scorecard be pursued at this time and that use of the scorecarding tool be optional for all divisions/offices. In lieu of a required scorecard, the Chairman confirmed the current requirement that all divisions and offices are required to have annual division/office plans/performance objectives that are aligned with and supplement the corporate goals and objectives (APGs and CPOs). This guidance will be communicated to all division/office directors by the COO and CFO following issuance of OERM's report.

3. That the Director, OERM, take steps to add greater independence and structure to GPRA program evaluation efforts. Such structure could include developing an annual program evaluation schedule, defining the scope and methodology of evaluation procedures performed, and reporting recommendations for program improvements.

Management Response: The FDIC is comfortable with the current structure of and approach to the program evaluation function and believes that the way the function is being administered complies fully with GPRA requirements and is consistent with the spirit of PART requirements for "independent" program evaluations (although the FDIC is not formally subject to PART requirements). The FDIC's approach to program evaluations has changed over the past two years. The current approach is articulated very clearly in Appendix C to the 2007 Annual Performance Plan that was recently submitted to the Congress and OMB. As indicated in that document, OERM now relies on a broad range of program studies and evaluations in performing the program evaluation function, including studies by the GAO, OIG, and independent internal review units in program offices as well as studies performed by OERM itself. Consistent with the intent of GPRA, this information is directly used to make improvements to program performance and results.

The current approach to program evaluations is not compatible with publication of a long-term schedule of specific planned evaluation studies. As a result, the FDIC's long-term Strategic Plan (scheduled to be updated this year) will necessarily address program evaluation plans at a high level. We will, however, address each year in the Corporation's Annual Performance Plan the studies, if any, that are planned for the year covered by the plan and will discuss how the findings of previous evaluation studies have impacted the establishment of new APGs or the revision of existing ones. We will also continue to report program evaluation findings in the Corporation's Annual Report.

We appreciate the opportunity to respond to your draft report. If you have questions or wish to discuss our comments in more detail, please contact Thomas E. Peddicord at X26252.

MANAGEMENT RESPONSES TO RECOMMENDATIONS

This table presents the management response 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	Open or Closed ^b
1	<p>Management did not concur with this recommendation. Management responded that it has always made an intentional effort to ensure that the two sets of performance measures were appropriately aligned and that the Corporation's senior leaders have been specifically asked each year to consider whether key CPOs should have a parallel APG in the Corporation's Annual Performance Plan. Management also noted that going forward, the proposed 2008 CPOs and APGs will be presented to the Chairman simultaneously to facilitate a more holistic review of the two sets of proposed performance measures and to ensure that they are appropriately aligned.</p> <p>The response also noted that the Chairman is giving consideration to the OIG's suggestion that the FDIC resume publication of the quarterly <i>Letters to Stakeholders</i> to increase transparency.</p> <p>Regarding the inclusion of mission support activities and operations in the APP, management noted that FDIC will soon be reporting to the Office of Personnel Management on a variety of performance metrics as part of a human capital planning process that is being established by regulation.</p> <p>The changes proposed by management address the intent of our recommendation by establishing a process for determining what initiatives warrant GPRA recognition and should increase the transparency of CPO results.</p>	N/A	\$0	Yes	Closed
2	<p>Management did not concur with this recommendation. Management indicated that OERM is nearing completion of a final report on the balanced scorecard pilot project and had briefed the Chairman on the report findings. The response indicated that the Chairman had directed that no corporate scorecard be pursued at this time; that use of scorecards be optional for all divisions/offices; and that all divisions and offices have annual division/office plans/performance objectives</p>	N/A	\$0	Yes	Closed

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
	<p>that are aligned with and supplement the corporate goals and objectives. The response indicated that this guidance would be communicated to all division/office directors by the COO and CFO following issuance of OERM's report.</p> <p>Although management stated that it did not plan to adopt this specific recommendation, the actions taken by the Chairman provided the high-level direction on the appropriate use of balanced scorecards as recommended.</p>				
3	<p>Management did not concur with this recommendation. Management responded that it is comfortable with the current structure of and approach to the program evaluation function and believes that this approach complies fully with GPRA requirements and is consistent with the spirit of PART requirements for "independent" program evaluations.</p> <p>We reiterated our concerns with the structure, transparency, and independence of the program evaluation function, but acknowledged that GPRA does not specifically require agencies to conduct formal program evaluations. Thus, the FDIC's approach to program evaluations, despite our concerns, does not violate GPRA. Accordingly, we accepted management's decision on this recommendation and we consider it closed.</p>	N/A	\$0	Yes	Closed

^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 Once the OIG determines that the agreed-upon corrective actions have been completed and are effective, the recommendation can be closed.