Office of Inspector General

September 2005
Report No. 05-032

Follow-up Evaluation of the FDIC's Corporate Planning Cycle

EVALUATION REPORT

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Background and Purpose of Evaluation

In response to a request by the Federal Deposit Insurance Corporation (FDIC) Chief Financial Officer (CFO), we performed this evaluation to follow up on a July 2001 study of the Corporate Planning Cycle (CPC) that we had conducted jointly with the FDIC Office of Internal Control Management, now the Office of Enterprise Risk Management (OERM). The purpose of the 2001 study was to determine the extent of resources involved in carrying out and supporting the CPC and to identify opportunities to more effectively integrate and streamline the planning and budgeting process. The Division of Finance's (DOF) Corporate Planning & Performance Management section manages the FDIC's planning and budget process and provides instructions for business planning, budgeting, and reporting to responsible staff.

Our objectives were to: determine whether DOF has been successful in reducing resources dedicated to the CPC and streamlining the CPC process; assess the FDIC's success in integrating budget and performance goal information; and benchmark the Corporation's CPC process against other agreed-upon agencies' or organizations' processes.

To view the full report, go to www.fdicig.gov/2005reports.asp

Report No. 05-032
September 2005

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Results of Evaluation

DOF has made progress in reducing resources dedicated to the CPC and streamlining the CPC process. Most division and office representatives indicated that the resources and time required for the 2005 budget formulation process had been reduced. DOF streamlined the cycle time for the budget formulation exercise from over 6 months for the 2001 budget to 3 months for the 2005 budget. Nevertheless, division and office representatives expressed concerns regarding several areas in the budget process. We concluded that DOF could further improve the FDIC's planning and budget process by:

- clearly communicating to divisions and offices the basis for proposed budgets in the areas of information technology (IT) services and external training;
- assessing the methodology, results, and benefits of division and office proposals to increase or decrease their respective budget proposals; and
- documenting and transmitting to divisions and offices the results of meetings wherein final budget decisions are made.

The FDIC has also made progress in integrating budget and performance goal information. In developing the 2005 corporate operating budget, the FDIC used an approach that involved senior management decisions on strategic and annual initiatives at the onset of the budget formulation exercise; provided budget representatives planning and budget formulation guidelines developed through senior management discussion; and required divisions and offices to review and provide input for performance plans, performance objectives, and proposed baseline operating budgets. This approach was an improvement over the 2001 CPC process wherein the staffing, budgeting, and planning processes overlapped and were not as well integrated.

However, the FDIC has established two sets of performance measures that are factored into the budget process. We concluded that the FDIC could do more to integrate and streamline the resulting dual reporting processes for these measures. Because this issue was not within the scope of the CFO's request for a follow-up evaluation of the CPC process, we plan to issue a separate report on the Corporation's establishment and use of performance measures at a later date.

Additionally, we benchmarked the FDIC's CPC process against other selected federal agencies' planning and budget processes and are providing this information for management's use.

Recommendations and Management Response

The report contained three recommendations to help ensure that divisions and offices have adequate information to review and respond to (1) proposed budgets in the areas of IT services and external training and (2) requests for proposed increases or decreases to their respective budgets. Another recommendation was intended to help the FDIC communicate and institutionalize the streamlined planning and budget process.

DOF generally concurred with our four recommendations, and we consider management's actions taken or planned responsive to the recommendations.

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ACRONYMS

APP	Annual Performance Plan
BPI	Budget and Performance Information
CFO	Chief Financial Officer
CIRC	Capital Investment Review Committee
COO	Chief Operating Officer
CPC	Corporate Planning Cycle
CPO	Corporate Performance Objectives
CPPM	Corporate Planning & Performance Management
CU	Corporate University
DIR	Division of Insurance and Research
DIT	Division of Information Technology
DOA	Division of Administration
DOF	Division of Finance
DOL	Department of Labor
DRR	Division of Resolutions and Receiverships
DSC	Division of Supervision and Consumer Protection
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FRB	Board of Governors of the Federal Reserve System
FTE	Full-time Equivalent
GPRA	Government Performance and Results Act of 1993
IT	Information Technology
NCUA	National Credit Union Administration
NFE	New Financial Environment
OCC	Office of the Comptroller of the Currency
ODEO	Office of Diversity and Economic Opportunity
OERM	Office of Enterprise Risk Management
OICM	Office of Internal Control Management
OIG	Office of Inspector General
OLA	Office of Legislative Affairs
OMB	Office of Management and Budget
OPA	Office of Public Affairs
OTS	Office of Thrift Supervision
PART	Program Assessment Rating Tool
PBGC	Pension Benefit Guaranty Corporation
PMA	President’s Management Agenda

FDIC
Federal Deposit Insurance Corporation
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Office of Audits
Office of Inspector General

DATE: September 16, 2005

MEMORANDUM TO: Steven O. App
Deputy to the Chairman and
Chief Financial Officer

Fred S. Selby
Director, Division of Finance

FROM: Russell A. Rau
Assistant Inspector General for Audits

SUBJECT: *Follow-up Evaluation of the FDIC's Corporate Planning Cycle* (Report No. 05-032)

This report presents the results of our evaluation of the Federal Deposit Insurance Corporation's (FDIC) Corporate Planning Cycle (CPC). We performed this evaluation based on the FDIC Chief Financial Officer's (CFO) request that we follow up on a July 2001 study of the CPC that we conducted jointly with the Office of Internal Control Management (OICM), now the Office of Enterprise Risk Management (OERM).[1] The purpose of the 2001 study was to determine the extent of resources involved in carrying out and supporting the CPC and to identify opportunities to more effectively integrate and streamline the planning and budgeting process. The Division of Finance's (DOF) Corporate Planning & Performance Management (CPPM) Section manages the FDIC's planning and budget process and provides guidance to staff responsible for business planning, budgeting, and reporting.

EVALUATION OBJECTIVES AND APPROACH

The objectives of this evaluation were to:

- Determine whether DOF has been successful in reducing resources dedicated to the CPC and streamlining the CPC process.
- Assess the FDIC's success in integrating budget and performance goal information.
- Benchmark the Corporation's CPC process against other agreed-upon agencies' or organizations' processes.

The evaluation focused on the corporate planning for, and budget formulation of, the FDIC's 2005 operational budget. We did not evaluate the budget execution phase or the FDIC's investment budget. We used the results of the 2001 CPC study as a baseline for answering our objectives. Also, we considered the results of a February 2004 internal study[2] conducted by CFO staff (2004 CFO study) to obtain feedback on the FDIC's newly instituted 2004 budget and planning processes. Appendix I describes in detail our objectives, scope, and methodology.

[1] *Study of FDIC's Corporate Planning Cycle*, EM-01-003, dated July 16, 2001.
[2] The study was entitled, *2004 Budget and Planning Formulation Post-Mortem.*

RESULTS IN BRIEF

We concluded that DOF has made progress in reducing resources dedicated to the CPC and streamlining the CPC process. Most FDIC division and office representatives we interviewed indicated that the resources required and the time involved for the 2005 budget formulation process had been reduced, in part, because DOF had proposed division and office budgets using a baseline methodology rather than requiring each division and office to formulate its own detailed budget justifications. However, specific information on the resources and time required was not accumulated; therefore, we could not verify these assertions. In addition, DOF streamlined the cycle time for the budget formulation exercise from over 6 months for the 2001 budget to 3 months for the 2005 budget.

Nevertheless, division and office representatives expressed concerns regarding several steps in the budget formulation process. Such concerns were generally consistent with the results of the 2004 CFO study. We concluded that DOF could further improve the process by:

- clearly communicating to divisions and offices the basis for proposed budgets in the areas of information technology (IT) services and external training;
- assessing the methodology, results, and benefits of division and office proposals to increase or decrease their respective budgets proposals; and
- documenting and transmitting to divisions and offices the results of senior management final budget decisions.

DOF has made additional progress since the 2001 CPC in integrating budget and performance goal information in developing the 2005 corporate operating budget by:

- making senior management decisions on strategic and annual initiatives and goals at the onset of the budget formulation exercise;
- providing budget representatives planning and budget formulation guidelines developed through FDIC senior management discussion; and
- requiring division and office directors' review of and input for performance plans, performance objectives, and proposed baseline operating budgets.

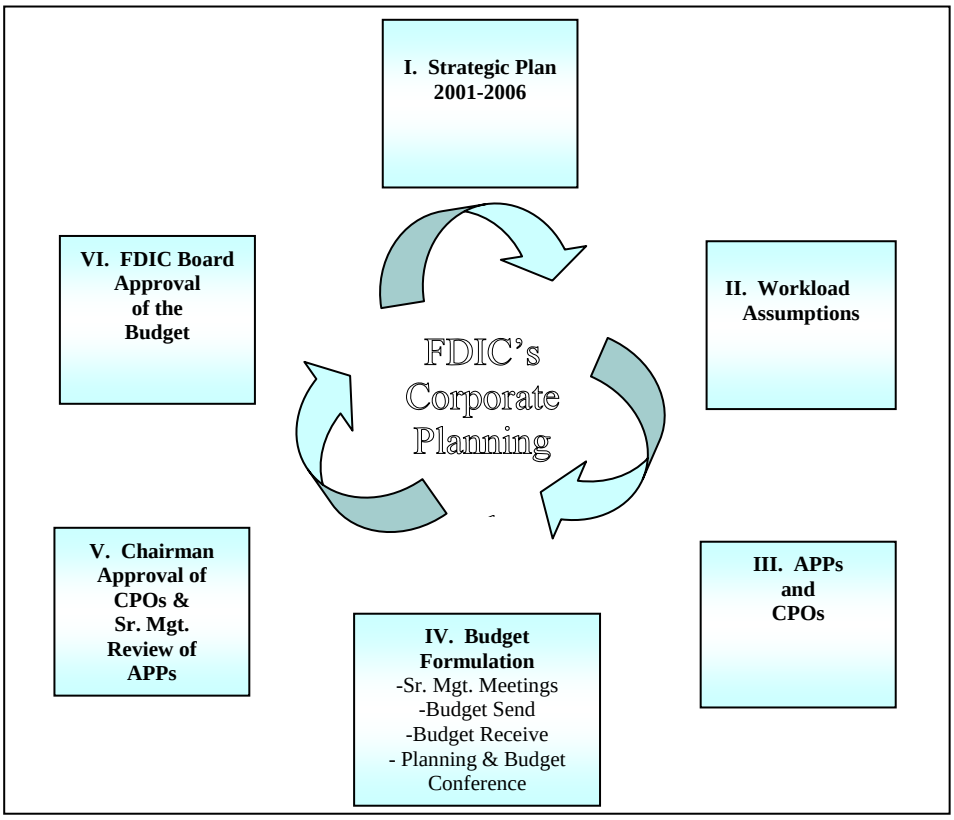
However, the FDIC has established two sets of performance measures — Annual Performance Plan (APP) goals and Corporate Performance Objectives (CPO) — that are factored into the budget process. We concluded that the FDIC could do more to integrate these measures and streamline the resulting dual reporting processes for these measures and believe this area warrants further evaluation. Because this issue was not within the scope of the CFO's request for a follow-up of the CPC process, we will issue a separate report focused on the Corporation's establishment and use of performance measures at a later date.

As requested by the CFO and DOF, we benchmarked the FDIC's CPC process against other selected federal agencies' planning and budget practices. Our results are provided in Appendix II.

BACKGROUND

The CPC process involves: senior corporate executives, division and office directors and planning and budget contacts, the CFO and DOF officials, and CPPM Section officials. In 2003, the FDIC implemented a streamlined planning and budget process to reduce the resources required to develop the 2004 and, ultimately, the 2005 APP and corporate operating budget. Figure 1 presents an overview of the FDIC's 2005 planning and budgeting process.

Figure 1: FDIC's 2005 Corporate Planning Cycle



Source: Office of Inspector General (OIG) analysis.

Corporate Planning Activities

The FDIC's planning process starts with its long-range strategic plan that identifies strategic goals and objectives for the Corporation's three major programs – Insurance, Supervision, and Receivership Management. The Government Performance and Results Act of 1993 (GPRA) requires that strategic plans be updated every 3 years. The FDIC adopted its initial strategic plan in 1995 and has reviewed and updated its strategic plans every 3 years as required under the GPRA. In January 2005, the FDIC Board approved the current *Strategic Plan 2005-2010*.

2005 Strategic Goals

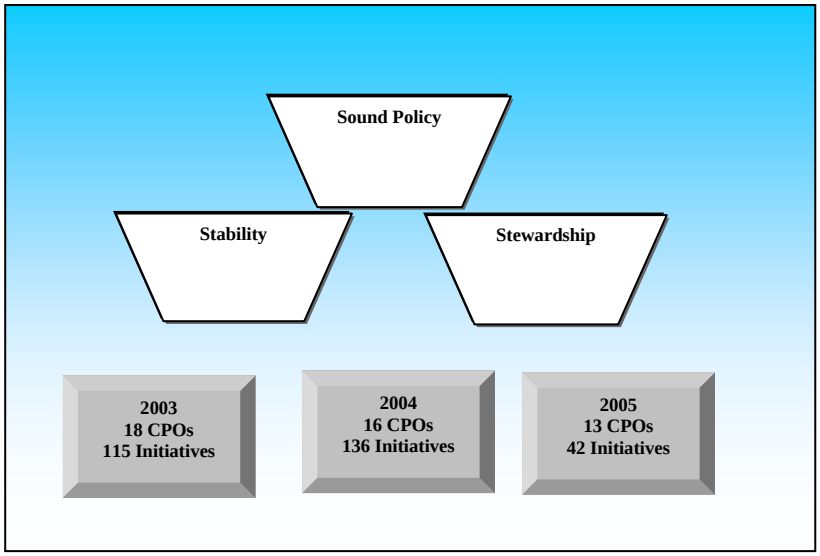
1. Insured depositors are protected from loss without recourse to taxpayer funding.
2. FDIC-supervised institutions are safe and sound.
3. Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.
4. Recovery to creditors of receiverships is achieved.

Source: 2005 Corporate Annual Performance Plan.

The FDIC's strategic plan is implemented through the APP, which includes annual performance goals, indicators, and targets for each strategic objective. The performance goals use a mix of output and milestone targets to focus and measure the FDIC's efforts toward accomplishing its mission. DOF submits quarterly reports reflecting APP results, on an exception basis, to the Chief Operating Officer (COO) and the CFO. The reports identify the number of performance targets that have been met or exceeded for the APP goals during the quarter, provide the status of the APP goals/targets that have not been met, and explain why they have not yet been achieved. Additionally, the FDIC submits an *Annual Report to the Congress* that compares actual performance to the annual performance goals. The FDIC issued its *2005 Corporate Annual Performance Plan* in early April 2005, which includes the strategic goals illustrated in the sidebar. The 2005 APP also includes 18 annual performance goals and a separate section, *Effective Management of Strategic Resources*, which discusses the management of financial resources, human capital, and information technology resources but does not include goals for these areas.

The FDIC initiated the CPOs in 2002. Since 2003, the FDIC has restructured the CPOs to align 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 that the FDIC operates in the most efficient and effective manner possible. As shown in Figure 2, the FDIC has significantly reduced the number of CPOs and performance initiatives since 2003.

Figure 2: 2003- 2005 Corporate Performance Objectives

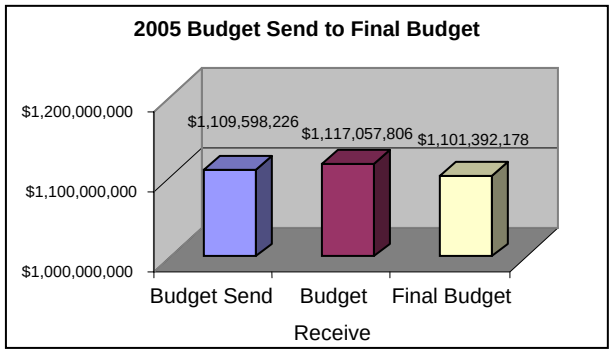


Source: OIG analysis of the FDIC's 2003-2005 CPOs.

Corporate Budgeting Activities

The FDIC adopted a new baseline budgeting methodology for the 2004 budget exercise and modified the budget process based on findings and recommendations from the 2004 CFO study. For the 2005 budget, DOF formulated and sent the budget (referred to as the Budget Send) to each division and office on August 13, 2004 for review and responses for budget adjustments. The Budget Send package included instructions for completing the reviews of the budget. Appendix III of this report includes more detail on the planning and budget guidance.

Figure 3: 2005 Budget Send to Final Budget



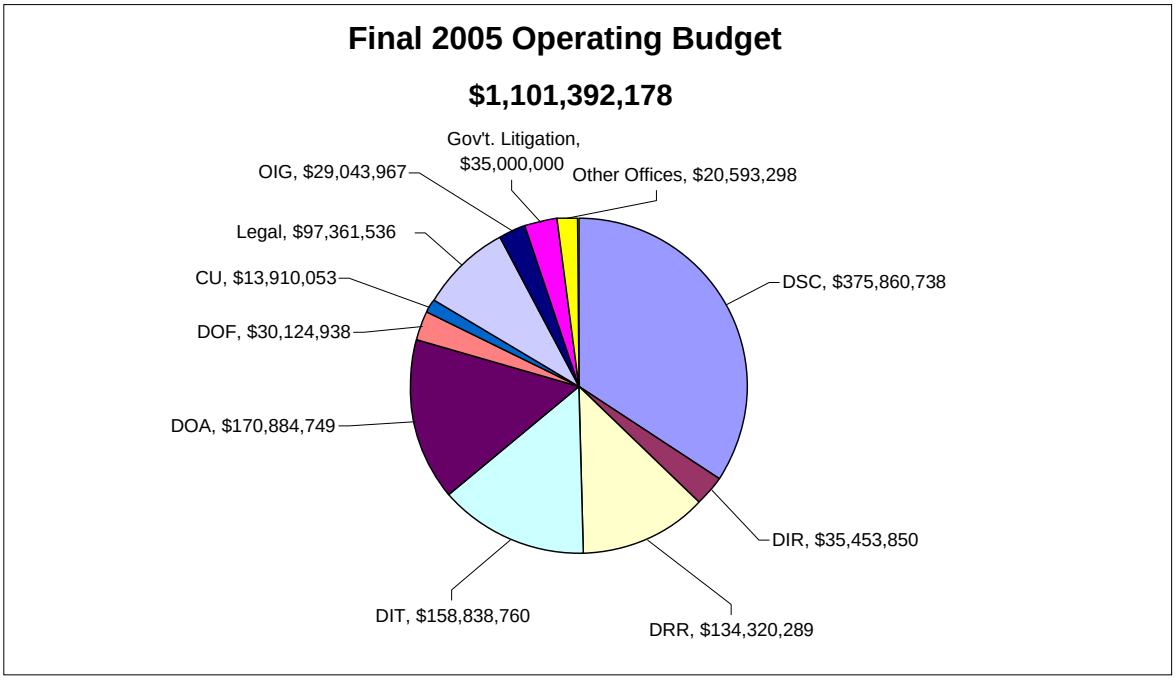
Source: OIG analysis of DOF budget documents.

DOF's baseline 2005 operating budgets submitted to FDIC divisions and offices were generally based on actual 2004 spending during the first 6 months of 2004 and budgeted expenses for the remainder of the year, adjusted for inflation. For some accounts, DOF used a 3-year average actual spending amount, adjusted for inflation. DOF requested that divisions and offices respond to the proposed operating budget (referred to as the Budget Receive) by September 13, 2004. On October 4 and 5, 2004, senior management held a planning and budget conference to discuss the Proposed 2005 Budget, the APPs, and the CPOs. As a result of the discussion, DOF made additional adjustments and developed the final budget proposed to the FDIC Board. Figure 3 provides a comparison of the Budget Send and the Final Budget presented to the FDIC Board. On December 7, 2004, the FDIC Board approved the 2005 proposed final budget. The 2005 final budget included the addition of approximately $20 million to fund various corporate priorities not included in the 2004 budget which had been used for baselining purposes. The 2005 final budget of about $1.1 billion included the following major expense categories:

- Salaries and Compensation – $695 million (63 percent)
- Outside Services (Personnel) - $215 million (20 percent)
- Other - $192 million (17 percent)

Figure 4 shows the 2005 final proposed budget for each division and office as well as funding for government litigation.

Figure 4: Final 2005 Proposed Operating Budget



Source: OIG analysis of Proposed 2005 Budget submitted to the FDIC Board.

The FDIC also has a separate Investment Budget that is composed of individual project budgets approved by the FDIC Board for major investment projects. Budgets for investment projects are approved on a multi-year basis, and funds for an approved project may be carried over from year to year until the project is completed. Effective January 1, 2005, all funding for future salary and benefits expenses, except overtime, was removed from the Investment Budget by FDIC Board resolution. The salary and benefits expenses are included in the FDIC's Corporate Operating Budget.

EVALUATION RESULTS

Reducing Resources Dedicated to the CPC and Streamlining the CPC Process

DOF has made progress in reducing resources dedicated to the CPC and streamlining the CPC process. DOF reduced the cycle time for the budget formulation exercise from over 6 months for the 2001 budget to 3 months for the 2005 budget.

Resources for the CPC Process

To determine the number of individuals involved in the process, we asked the divisions and offices to identify the amount of time spent on and individuals who were responsible or provided input for the following processes:

- strategic and annual performance planning and CPOs;
- staffing; and
- budget planning, formulation, and review.

We interviewed division and office budget contacts to determine whether DOF had made progress in reducing resources dedicated to the CPC. As illustrated in Table 1, we received a variety of answers; however, most divisions and offices reported that they had dedicated fewer resources to the 2005 CPC process than in prior years.

Table 1: Division and Office Resources Dedicated to the 2005 CPC Process

Division/Office	Staff	Time Devoted to Process
Division of Supervision and Consumer Protection (DSC)	43	1 individual 100 percent (includes budget execution), 1 individual 30 percent, 18 individuals 2 hours each, and 23 individuals 1-10 percent.
Division of Resolutions and Receiverships (DRR)	10	10 individuals 20-35 percent and multiple champions providing input for division objectives (no time identified).
Division of Insurance and Research (DIR)	23	2 individuals 60-75 percent (3 month period) and 21 individuals 3-10 days each.
Division of Information Technology (DIT)	24	3 individuals 60-68 days each, 18 individuals 10 days each, 3 individuals 3-5 days each.
Division of Administration (DOA)	11	2 individuals 100 percent (includes budget execution), 1 individual 25 percent, 8 individuals (no time identified).
DOF	7	Various times of the year: 2 individuals 30-45 percent, 2 individuals 10-15 percent, 1 individual 1 percent, and 2 individuals (no time identified).
Legal Division, Corporate University, and Offices	30	Generally, 1-4 individuals for various amounts of time.
Total	**148**	

Source: OIG interviews with division and office representatives.

The 2004 CFO/DOF study identified that some divisions and offices voluntarily formulated their own budgets, citing the need for accountability at the lower levels of their organizations as well

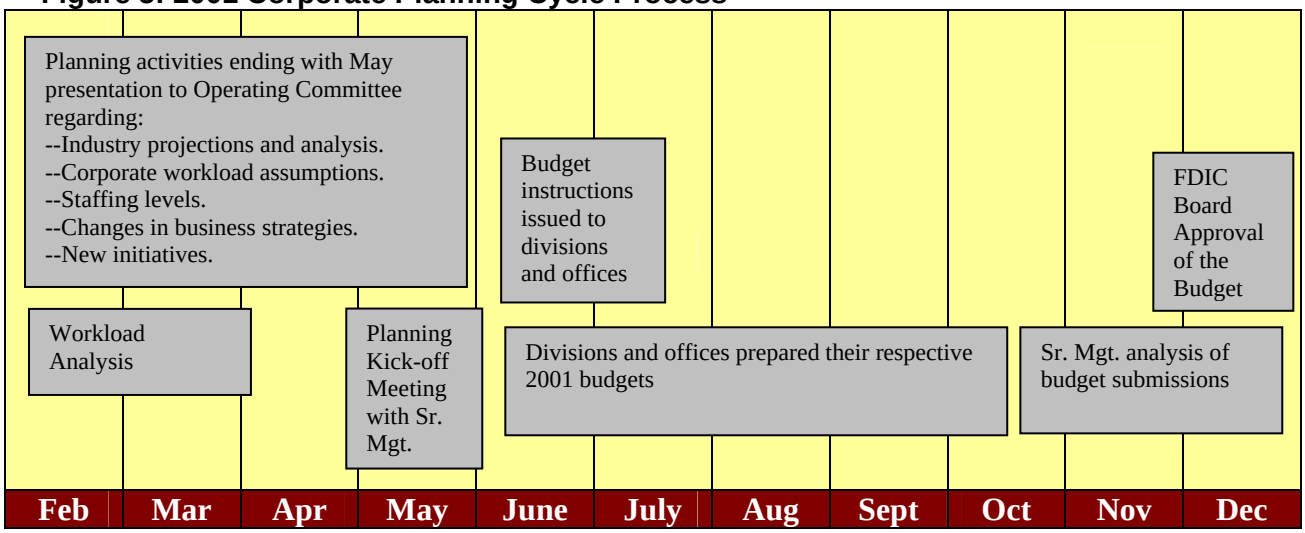
as the need to verify the reasonableness of the baseline budgets provided by DOF staff.[3] Thus, DOF concluded at that time that it was unclear whether cost savings that had been anticipated as a result of the baseline budgeting exercise were fully realized. Similarly, one division told us that the 2005 budget formulation process was not streamlined and that the division still formulated its own budget using headquarters and regional office input and comparing the results with the DOF-proposed baseline budget.

Divisions and offices do not use a project code or other identifier to capture an individual's time spent for planning and budget processes. Therefore, we could not determine the exact amount of resources used for the Corporation's planning, staffing, and budgeting processes or the exact number of resources dedicated for the 2005 budget planning and formulation exercise compared to the 2001 exercise. The FDIC's New Financial Environment (NFE) now includes a program code for charging the budgetary functions. Therefore, future efforts to associate resources and costs with the various planning and budgetary activities should be achievable. Comparing the number of resources for the 2005 CPC process to the resources for the 2001 CPC process would have little, if any, value because the FDIC has made significant changes to its process since 2001, such as the addition of CPO planning and the elimination of the extended and separate core staffing exercise.

Streamlining the CPC Process

The FDIC has made progress in streamlining the planning and budgeting process. Specifically, the budget formulation cycle was reduced from more than 180 days for the 2001 CPC to 90 days for the 2005 planning and budgeting process. As shown in Figure 5, the 2001 budget started in mid-May 2000 with the Planning Kick-off Meeting and ended in early December 2000.

Figure 5: 2001 Corporate Planning Cycle Process



Source: 2001 OIG/OICM Study of the Corporate Planning Cycle.

One of DOF's 2003 annual goals was to recommend and implement a streamlined annual planning and budget process to significantly reduce the total staff time and cost required to develop the APP and corporate budget. In May 2003, DOF presented a streamlined planning

[3]Our evaluation did not assess the reasonableness of the baseline budgets or the effectiveness and efficiency of the allocation of resources resulting from the streamlined process. (See Appendix I for additional information on our scope and methodology.)

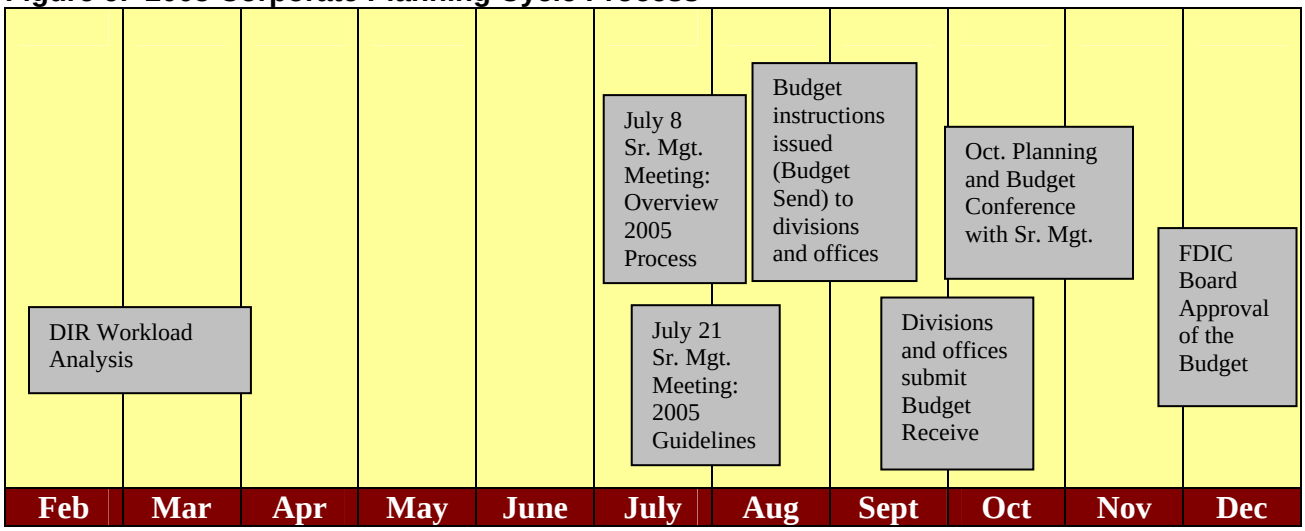
and budgeting proposal to the FDIC's Operating Committee for the 2004 planning and budget formulation process. The proposal showed that the budget formulation process -- from establishing the planning/budget assumptions to submitting the proposed 2004 budget to the FDIC Board -- would be reduced to 120 days (mid-July to mid-November). In addition, division and office staff would be required to spend about 90 days to support the budget formulation process as compared to 150 days spent for the 2003 budget.

DOF reported achievement of the 2003 goal to streamline the planning and budgeting process and announced that the process for the 2004 budget more closely linked the planning process to the budget and that the process had been shortened by 60 days. The 2004 CFO study referenced six goals for consideration in implementing the 2005 budget and corporate planning processes, including the following goals related to streamlining the budget process:

1. Continue to streamline the process and compress the budget formulation cycle time to no more than 90 days (down from 120 days employed in the 2004 process).
2. Compress the period of individual client division and office involvement in the process to no more than 60-75 days (down from 75-90 days employed in the 2004 process).

The January 2005 edition of *FDIC News* included an article entitled, *The 2005 Budget: Responding to a Changing Industry*, which states that the accelerated 90-day 2005 planning and budget process was a "departure from past efforts that required much more time on the part of managers and their staffs." The article further states, "This streamlined process, which utilizes baseline budgeting techniques, frees senior managers and their staffs from formulating some of the very detailed budget request justifications they had to put together in the past." DOF determined the 90-day timeframe using the senior management meeting held in July 2004 as a start of the cycle time and the senior managers' planning and budget conference held in October 2004 as the end of the cycle. Figure 6 presents the 2005 CPC process.

Figure 6: 2005 Corporate Planning Cycle Process



Source: Interviews with DOF and OIG analysis of 2005 planning and budget documents.

IT and External Training Allocations and the Budget Increase/Decrease Proposals Exercise

Division and office representatives expressed concerns about several areas in the budget process. These comments were generally consistent with the results of the 2004 CFO study of the planning and budgeting activities. We concluded that DOF could further improve the FDIC's planning and budget process by:

- clearly communicating to divisions and offices the basis for proposed budgets in the areas of IT services and external training;
- assessing the methodology, results, and value of division and office proposals to increase or decrease their respective budgets (plus/minus 10-percent exercise); and
- documenting and transmitting to divisions and offices the results of senior management meetings wherein final budget decisions are made.

IT Allocation

The proposed 2005 Operating Budget included an allocation totaling about $47 million to address each division's IT systems development/maintenance needs that are neither included in the investment portion of the budget nor subject to Capital Investment Review Committee (CIRC) oversight.[4] Approximately two-thirds of the allocation—referred to as the Non-CIRC IT allocation in the Budget Send—was for system maintenance and sustaining base,[5] and one-third of the allocation was for the client division's or office's discretionary IT projects. The Non-CIRC IT allocation represented about 4 percent of the 2005 proposed operating budget. The final Non-CIRC IT allocation resulted in about a 1-percent reduction in the proposed allocation. Table 2 on the following page presents an overview of the Non-CIRC IT allocation process and our observations.

[4] In 2002, the FDIC established the CIRC, which reviews and oversees all major investment projects costing $3 million or more, whether IT-related or not, as well as certain other projects that cost less but are not considered mission-critical to the FDIC.

[5] A sustaining base project encompasses work required to sustain and support existing systems operations and functions (e.g., budgeting and planning).

Table 2: Non-CIRC IT Allocation Process and OIG Observations

Budget Send	Budget Receive	October 2004 Planning and Budget Conference
DOF developed the Non-CIRC IT allocation using 2004 IT project data and major IT events budgeted for 2004. DOF instructions allowed divisions to reallocate funds from their IT allocation to a major expense category within their own operating budget. However, no division could reduce its IT allocation below the baseline level needed by DIT to maintain and operate the division's existing systems. DIT made an initial estimate of the 2005 maintenance/sustaining base cost for each division, but that estimate could be modified, with notification to DOF, by mutual agreement between DIT and the client division. DOF included an attachment for each division that separately identified maintenance/sustaining base funds and client discretionary funds for the Non-CIRC IT allocation. DOF included a consolidated Non-CIRC IT allocation for most of the office-level organizations in DIT's operating budget.	Divisions and DIT worked together to determine maintenance and sustaining base needs and planned IT initiatives. DIT provided estimated IT costs for each project or initiative to the respective division. The Budget Receive included an attachment entitled, *Projected 2005 Non-CIRC Information Technology Initiatives,* which listed the proposed IT initiatives to be pursued by each division or office with its 2005 Non-CIRC IT Allocation. This attachment included a signature line as a control to document DIT concurrence with the respective division's/office's proposed IT initiatives.	FDIC senior managers reviewed and prioritized a consolidated list of the division's or office's proposed Non-CIRC IT allocations and decided which projects and initiatives would be included in the 2005 budget.
OIG Observations		
Concerns expressed by divisions and offices included confusion about the process for allocation development, adequacy of the allocation, and the need for better communication between the client division/office, DIT, and DOF prior to transmitting the Budget Send.	Budget Receive documentation showed that two divisions reduced their maintenance/sustaining base cost. Moreover, only 3 of 11 divisions and offices obtained DIT concurrence for proposed IT initiatives.	Although DOF briefed divisional and office deputy directors, there were instances in which divisional budget contacts were not aware of final Non-CIRC IT allocation decisions.

Source: OIG interviews and analysis of planning and budget documentation.

Some divisions stated that the Non-CIRC IT allocation process had improved in comparison to the 2004 process. However, they expressed concerns about the formulation of the Non-CIRC IT allocation, the adequacy of the maintenance/sustaining base cost, and the lack of flexibility in this process.

- One division stated that the Non-CIRC budget number was provided with no supporting data or methodology to show how the number was derived. This division also stated that the Non-CIRC IT requirements are not defined up front, which could result in delayed system enhancements and maintenance.

- Another division did not understand how the amount for the Non-CIRC IT allocation had been determined and believed that its concerns over the adequacy or appropriateness of the amount had not been considered.

- Another division stated that better communication was needed between the division and DIT and DOF before the Budget Send was provided to the divisions for responses.

The Budget Receive package included a signature line to document DIT's concurrence with division/office proposed IT initiatives. We reviewed the Budget Receive package and found that only 3 of the 11 divisions/offices had obtained a DIT concurrence (i.e., signature). To illustrate the significance of the DIT concurrence, DOF budget guidance states that the information provided by the divisions and offices in the attachment listing the proposed IT initiatives would be largely used to support the presentation of the budget to the FDIC Chairman and the Board of Directors in October-November 2004.

DOF told us that the Budget Receive packages had been updated more than once and that the original attachment could have been signed, but DOF did not ensure that the final version had DIT's concurrence signature. DOF indicated that the respective DOF budget contact assigned to each division or office functions as a control to ensure DIT and the client division agreed with the allocation. DOF acknowledged that the purpose of the signature line is to ensure DIT concurrence with division/office-proposed IT initiatives.

According to DOF's budget instructions, no division could reduce its IT allocation below the baseline level needed by DIT to maintain and operate the division's existing systems; however, the estimate could be modified, with notification to DOF, by mutual agreement between DIT and the client division. Our analysis of the Budget Send and Final Budget Proposed to the Board showed that the maintenance and sustaining base projects for two client divisions had been reduced. Unlike the formal DIT concurrence for a respective division's proposed IT initiatives, DOF's budget instructions did not require, and the Budget Receive did not include, a formal concurrence, that is, a signature line, for a proposed reduction in the maintenance and sustaining base.

External Training Budget Allocation

The 2005 Budget Send included a proposed Corporate University (CU) $14 million internal operating budget and a proposed $3.4 million budget allocation for external training as a separate expense category in each of the division's and office's budgets. In regard to CU's operating budget, FDIC senior management exempted CU from the baseline budgeting process and agreed that the 2005 budget for CU would remain at the same level as the FDIC Board-approved 2004 budget (adjusted for inflation).

DOF's budget preparation instructions provided a limited explanation on the development of the external training budgets. The instructions stated that based on a CU Governing Board decision, CU would be responsible for reviewing the proposed training budget on a corporate basis, in consultation with the divisions and offices, and for submitting to DOF any proposed changes to the training allocations for the divisions and offices. DOF's instructions further indicated that, after review, these budgets were to be returned to, and administered by, each division/office.

We determined that the division and office training budgets were developed, as follows:

- For the 2005 Budget Send (August 2004), DOF estimated about $3.4 million in external training costs for the divisions and offices based on the 2004 (January through June) actual external training costs.

- Following the Budget Receive[6] (due in mid-September 2004), CU presented a revised 2005 external training budget for a total of about $3.3 million at the October 2004 planning and budget conference. CU developed the revised budget by dividing the estimated 2004 external training costs by division and office Full-Time Equivalent (FTE) staff members to arrive at a per capita cost for each division and office. In addition, CU applied a 10-percent reduction to each division's and office's training budget, in accordance with a CU Governing Board decision for a per capita reduction in external tuition and fees based on 2004 expenditures. The per capita approach and the 10-percent reduction did not apply to certain CU programs for external training – the CU External Developmental Program, Individual Learning Accounts, and Federal Financial Institutions Examination Council (FFIEC)[7] – which represented about $1.1 million of the total $3.3 million external training budget with the remaining $2.2 million allocated to divisions and offices.

After the October 2004 planning and budget conference, CU updated the divisions' and offices' external training budgets by using 9-months' actual training costs and applying a 3-tier cost allocation estimating methodology using a $600 per capita ceiling cap and a $200 per capita floor. If the estimated per capita cost exceeded $600, the per capita cost was capped at $600. If the estimated per capita cost was less than $200, CU raised the division's/office's estimated per capita cost to $200. Finally, CU multiplied the estimated or adjusted per capita cost by the division's/office's FTEs to determine the proposed 2005 external training budget allocation. Table 3 shows CU's updated training allocation for three divisions.

Table 3: CU's Proposed Training Allocations

Division/Office	CU Estimated 2004 Training Cost Annualized (9-Month Actual)	Estimated FTE Staff as of 1/1/05	Per Capita 2004 Training Cost	Less 10%	Adjusted 2005 Per Capita Costs	2005 Training Budget (Per Capita Cost Times FTEs)	Percent Difference
DIT	$377,433	410	$921	$829	$600	$246,000	-35%
DOA	$253,915	436	$582	$524	$524	$228,464	-10%
Legal Division	$93,331	505	$185	$167	$200	$101,000	8%

Source: 2005 Division/Office Training Budget – Using 3-Tier Cost Allocation, and OIG analysis.

[6] There were minor differences between the Budget Send and the Budget Receive external training budget allocations. Specifically, one organization increased its external training budget by $415,217, and another organization decreased its budget by $4,691, resulting in a total allocation of about $3.8 million for the Budget Receive.

[7] The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), FDIC, the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). The FFIEC makes recommendations to promote uniformity in the supervision of financial institutions. As a member of the FFIEC, the FDIC participates on task forces to carry out interagency objectives and activities. The focus of one task force is on examiner education. CU's course index includes FFIEC courses.

The examples below show that the divisions and offices we interviewed did not agree with CU's budget formulation process.

- One division with a significant number of FTEs stated that there was a lack of communication between the division staff, DOF, and CU in developing the external training budget and believed that the process limited open discussions and consideration of new cost initiatives for training. This division noted that the FDIC Chairman approved a corporate initiative that involved training, yet CU did not propose funds for training needed for the initiative. According to the division, there was no flexibility in discussions during the budget process. CU eventually reallocated more funds to this division's training budget from a CU reserve pool for the training initiative, but the division will have to absorb the travel costs associated with the training from other divisional expense categories.

- One division stated that it did not agree with CU's per capita rate methodology of formulating the division's training budget.

- One division stated that it had developed a training budget based on historical spending rates, but CU decreased the training budget by 70 percent without providing any detail or explanation for the reduction.

- One division stated that its main concern was that CU did not interact with the division. This division questioned whether CU could accurately review and approve a budget for a division without knowing the division's needs.

- One division stated that CU reduced the division's proposed training budget, and the division had to reallocate funds to compensate for the decrease.

CU's budget staff acknowledged that the divisions and offices were dissatisfied with the budget formulation for external training and that three divisions and one office had offered revised FTE training estimate proposals. However, these revised proposals were not included in the final external training allocations presented in the final 2005 operating budget that had been approved by the FDIC Board. Table 4 on the next page shows the external training allocations, by division and office, for the Budget Send; CU's per capita estimates; CU's 3-tier methodology; and the final allocation. Table 4 also shows the changes from the 2004 external training budgets to the CU allocations for 2005 for each division and office.

Table 4: External Training Budget Allocations Proposed for 2005

Division or Office	2004 Budget	Budget Send (8/2004)	CU Per Capita Allocation	CU 3-Tier Allocation (10/2004)	Final Allocation	Difference 2005 vs. 2004
CU	$ 10,000	$ 10,000	$ 9,000	$ 8,550	$ 8,550	-15%
DSC	1,155,805	579,122	521,210	988,213	988,213	-15%
DIR	124,924	111,949	100,754	74,306	74,306	-41%
DRR	248,218	202,747	182,472	136,818	136,818	-45%
DIT	550,000	517,000	465,300	246,000	246,000	-55%
DOA	485,533	366,345	329,711	228,523	228,523	-53%
DOF	182,014	216,632	194,969	117,600	117,600	-35%
Legal	125,000	119,083	107,175	101,000	101,000	-19%
Executive Office	27,000	20,637	18,573	12,600	12,600	-53%
ODEO	49,698	49,046	44,141	20,400	20,400	-59%
OERM	10,400	7,617	6,855	6,000	6,000	-42%
OLA	2,808	1,425	1,283	2,000	2,000	-29%
OO	4,188	4,241	3,817	3,600	3,600	-14%
OPA	2,376	1,206	1,085	2,200	2,200	-7%
CU – Other	190,000	190,000	N/A	N/A	290,000	+53%*
DSC - FFIEC	800,000	781,550	N/A	N/A	781,000	-2.4%
OIG	263,904	248,901	219,789	N/A	244,210	-7%
Total	**$4,231,868**	**$3,427,501**	**$2,206,134**	**$1,947,811**	**$3,263,020**	**-23%**

Source: Budget Send, Budget Receive, and CU spreadsheets.

* Increase reflects $100,000 budgeted for Individual Learning Accounts pilot program to provide increased flexibility in the design of learning opportunities for randomly selected employees authorized to spend up to $2,500 and up to 3 work days to attend external training.

We concluded that DOF and CU could have more effectively communicated with the division and office budget representatives responsible for formulating the budgets and explaining the methodology and basis for the external training budget allocations. Further, as depicted in Table 4, it appears that CU's 3-tier methodology for determining division and office allocations went beyond the 10-percent reduction.

Budget Increase/Decrease Proposals Exercise

Although DOF employed a baseline budget approach largely based on 2004 spending levels, DOF afforded divisions and offices two opportunities to adjust their budget proposals to reflect new 2005 initiatives or cost reductions. First, in July 2004, prior to the Budget Send, DOF requested that each division and office director submit workload or other factors that were expected to affect each division's or office's 2005 staffing or other budgetary requirements. Some submissions had been included in the Budget Send instructions and had been identified as approved adjustments to the baseline operating budgets.

Second, DOF's Budget Send included Attachment 12, *2005 Budget Increase/Decrease Proposals*, with instructions that each division and office use the attachment to provide specific proposals that address two key questions:

- How would the division/office use an increase of up to 10 percent in its 2005 operating budget (including its Non-CIRC IT allocation)?

- How would the division/office absorb a reduction of up to 10 percent in its 2005 Operating Budget (including its Non-CIRC IT Allocation)?

The written instructions relating to the "plus/minus 10-percent exercise" were limited to stating that:

- ***proposals involving staff resources would be costed for the full 12 months of 2005 even though such staffing changes might not be realistically implemented for the full year,***
- ***senior management would discuss proposals at the October 2004 Planning and Budget Conference, and***
- ***each division and office must complete specific attachments, including Attachment 12, and submit them to DOF's Deputy Director, over the signature of the division/office director or other authorized senior officer.***

Source: Attachment 5 of DOF's Budget

At the July 8, 2004 planning/budget kick-off meeting, DOF advised division and office senior management that the 2005 budget process would parallel the 2004 process, which also included the "plus/minus 10 percent" exercise, except that the increase or decrease proposals would reflect "up to" 10 percent of the 2005 operating budget rather the full 10 percent used for the 2004 budget. The plus/minus 10-percent exercise was considered a critical component of the budget process. The intent of the exercise was to consider efficiency and priority from a corporate perspective. The proposed 2005 operating budget of the Budget Send totaled about $1.11 billion. The plus/minus 10-percent exercise had the potential of increasing or decreasing the budget by about $111 million.

Based on the CFO 2004 study of the planning and budgeting process, some divisions and offices stated that the plus/minus 10-percent exercise prompted staff to prioritize division and office goals. The divisions and offices with the majority of their budgets made up of salaries and compensation believed the plus/minus 10-percent exercise resulted in significantly cutting staff, altering their mission, and/or significantly reducing support provided to other divisions within the Corporation. Some divisions and offices also concluded that their ideas and initiatives were not seriously considered in the budgeting process. Further, the divisions and offices expressed a need for more communication and feedback in order to better understand the intentions of the exercise.

Similarly, the divisions and offices we interviewed stated that the plus/minus 10-percent effort was a good exercise but that it was less appropriate when more than 90 percent of the budget constituted personnel costs. We also found that the divisions and offices continued to believe that the communication from DOF needed improvement. For example, one division told us that no one looks at the plus 10-percent side and evaluates the initiatives. Instead, the division

stated that the minus 10-percent side is scrutinized, making this part of the budget process a cost-cutting exercise. Division representatives expressed that the 2005 guidance was misleading and that there was a need for clarification of the plus/minus 10-percent exercise.

Our review of the 2005 Budget Receive documents showed that two of the divisions and offices did not provide a response to the two key questions and that another division did not respond to the minus 10-percent question. These three divisions and offices accounted for about 56 percent of the budgeted dollars reflected in the Budget Send. The lack of responses from these key divisions and offices limits the effectiveness of the plus/minus 10-percent exercise in the new baseline budget process. Specifically, the exercise may not provide FDIC senior management with all the potentially viable options for prioritizing initiatives.

DOF provided senior management with a consolidated list of the plus/minus 10-percent initiatives for discussion. This list included some initiatives that were not part of the division and office responses in the Budget Receive plus/minus 10-percent exercise. Table 5 presents selected initiatives from the consolidated list presented at the October planning and budget conference.

Table 5: Excerpts from Consolidated Plus/Minus 10-Percent Initiatives Discussed at the October 2004 Planning and Budget Conference

Plus 10-Percent Initiatives	Amount (000s)	Minus 10-Percent Initiatives	Amount (000s)
CU—Fund 8 FTEs to provide faculty and support	$ 1,120	CU—Postpone conversion of three online/ classroom courses to Web-based training	$ 600
DIR—Improve DIR's IT function	1,095	DIR—Stop/defer most system enhancements and reduce IT development projects	1,000
DIR—Hire visiting scholars for the Center for Financial Research	350	DIR—Reduce costs by decreasing frequency of FDIC Outlook and FDIC Banking Review to semiannually	326
DIT—Mainframe back-up/disaster recovery	3,346	DOA—Move to a self-insurance program	1,687
DIT—Establish an E-business strategy	500	DOF—Eliminate filled, previously identified surplus (10) positions	945
DOA—Improvements to the Student Residence Center	2,000	DRR—Reduce approximately 60 staff resources in the asset management area	8,300
DRR—Consultant services for the Asset Valuation Review Process methodology	2,000	ODEO—Eliminate 4 staff positions	528
DSC—Financial Literacy Education Commission	2,000		
DSC—Development and purchase of Hispanic media and print in 14 markets	1,500		
DSC—Bank Secrecy Act/Offsite Monitoring training and outreach to regions	750		
Total of 43 Plus Initiatives	**$32,794**	**Total of 25 Minus Initiatives**	**$18,297**

Source: OIG analysis of proposed plus/minus initiatives.

Prior to the October 2004 planning and budget conference, the COO and CFO reviewed the consolidated list and identified the most important initiatives. DOF sent an e-mail message to the division and office directors, advising that every division/office would not be required to

present its plus/minus 10-percent proposals at the conference. The e-mail further states that the COO and CFO decided:

> our time would be better spent by selecting ideas from the proposals submitted that were significant and realistic enough to merit discussion by the full group. The ideas that were selected for discussion are shown on the agenda. If an idea submitted by your organization has been omitted and you feel it should be placed on the agenda for discussion, please let me know on Monday [first day of the conference] morning and we will add it to the agenda.

A DOF official told us that this e-mail message "serves to document the disposition/elimination of most of the plus and minus 10-percent proposals."

The conference agenda included six Possible Budget Increase proposals with a total value of $12.1 million and four Possible Budget Reduction proposals with no specific dollar values identified.[8] The DOF official told us that another $1.0 million plus 10-percent proposal, *E-Banking Failure Simulation*, was added to the agenda during the conference. The DOF official stated that five of the seven increase proposals were proposed in the final budget at substantially lower amounts. DOF did not maintain information on the cost reduction proposals discussed at the conference.

We could neither determine the exact number of plus/minus initiatives that were ultimately included in the final 2005 budget nor verify the funding of the proposals discussed at the October conference. DOF told us that it did not track the specific number of plus/minus initiatives but pointed out that the initiatives specified in the proposed 2005 budget briefing materials presented to the FDIC Board in December 2004 included some of the plus/minus initiatives. We reviewed the budget briefing materials and noted that some of the initiatives were those requested by divisions and offices in July 2004 (prior to the Budget Send) and that some of the initiatives and cost reductions were from the plus/minus 10-percent consolidated list. We identified only two initiatives that were part of the division's and office's responses to the plus/minus 10-percent exercise in the Budget Receive. Table 6 on the next page presents the results of our analysis.

[8] A $2.2-million-increase proposal, *FDIC Web Site Redesign*, and a cost-reduction proposal (unidentified value), *FDIC Life Style Changes*, on the agenda were not included on the consolidated list.

Table 6: Corporate Initiatives Funded and Cost Reductions in 2005 Budget

Funded Initiatives	Amount (Millions)	July 2004 Initiative	+/- 10% Consolidated List	Division/Office Response to +/- 10%
1. Training – Bank Secrecy Act Specialists	$.4	X	X	
2. Increased Staffing – Large Bank Program	3.3	X		
3. Additional Staffing – BASEL II Accord	2.6	X		
4. Hispanic Financial Literacy Outreach Program	2.4	X	X	
5. Contingency Planning – Large Bank Resolution	1.0			
6. Central Data Repository – First Year Operations	3.4	X		
7. E-Government Technology	1.8		X	X
8. IT Security Program Enhancements	2.8	X		
9. Corporate Employee Program	1.0			
Total -- 9 Funded Initiatives	**$18.7**			
Cost Reductions		***July 2004 Initiative***	***+/- 10% Consolidated List***	***Division/Office Response to +/- 10%***
1. Managing Vacancies Program	$15.3	X		
2. Resolutions Staffing Platform	Cost not indicated		X	X
3. Field Leasing Costs	1.1	X		
4. Consolidation of IT Contracts	1.4			
5. Low Priority IT Initiatives	2.3			
Total -- 5 Cost Reduction Initiatives	**$20.1**			

Source: OIG analysis of consolidated list of plus/minus initiatives and initiatives funded in the 2005 Budget.

Given division and office concerns over, and lack of participation in, the plus/minus 10-percent exercise, we believe that DOF could assess the methodology for and evaluate the impact and benefits of the exercise on the FDIC's budget process and determine whether there are opportunities to enhance its usefulness.

Integration of Planning and Budgeting With Performance Management

The FDIC has made progress in integrating budget and performance goal information. For example, in developing the 2005 corporate operating budget, the FDIC used a more integrated planning and budgeting process that was an improvement over the 2001 CPC wherein the staffing, budgeting, and planning processes overlapped and were not as well integrated. However, the FDIC does not have a corporate directive that documents the FDIC's planning and budgeting framework and integration adopted for the 2004 and 2005 budgets. In addition, the Corporation's establishment and use of two performance measures is an issue warranting further review.

Government-wide Focus on Planning and Budgeting

Over the last decade, the Congress, the OMB, and other executive agencies have worked to implement a statutory and management reform framework to improve the performance and accountability of the federal government. Key components of this framework include the GPRA and the Chief Financial Officers Act. These reforms were designed to improve congressional oversight and executive decision making by providing objective information on the relative effectiveness and efficiency of federal programs and spending.

The current administration has taken several steps to strengthen the integration of budget, cost, and performance information. For example, the administration has made the integration of budget and performance information (BPI) one of five government-wide management priorities under the President's Management Agenda (PMA). The BPI emphasizes improving outcome measures and monitoring of program performance.

Additionally, in 2002, OMB introduced the Program Assessment Rating Tool (PART) into the executive branch for budget deliberation as the central element in performance budgeting for the PMA. PART applies 25 questions to federal programs under four broad topics: (1) program purpose and design, (2) strategic planning, (3) program management, and (4) program results (i.e., whether a program is meeting its long-term and annual goals). PART builds on the GPRA by actively promoting the use of results-oriented information to assess programs in the budget.

Finally, as part of the BPI, OMB provided guidance to agencies on restructuring their appropriations accounts and congressional budget justifications and, beginning with the fiscal year 2005 budget, required agencies to submit a "performance budget" that integrates the annual performance plan and congressional budget justification into one document.

The FDIC is subject to certain provisions of the GPRA, specifically, the requirement to prepare and submit a strategic plan and an annual performance plan. The FDIC has determined that it is not required to participate in OMB's PART reviews or to prepare a performance budget.

2005 Planning and Budget Formulation

We concluded that the FDIC has improved integration of the corporate planning and budget processes. For example, the FDIC's 2005 planning and budget formulation process started in July 2004 with a DOF-sponsored meeting of corporate senior executive management to provide an overview of the 2005 planning and budget process. DOF held another meeting in July 2004 wherein senior executive managers discussed plans and projected workloads and established guidelines for the 2005 planning and budget formulation exercise, which provided an

explanation of DOF's development of baseline operating budgets and information regarding 2005 goals and objectives. Excerpts from the guidelines are provided in Table 7.

Table 7: Excerpts From the 2005 Planning and Budget Guidance

Development of Baseline Operating Budgets	DOF will develop baseline operating budgets for each FDIC organization. Baseline budgets will generally be based on actual 2004 spending, with adjustments for projected 2005 inflation where appropriate (4.3% for salaries and benefits costs, 1.5% for non-compensation costs).
2005 Goals and Objectives	An APP target/indicator will be submitted by DSC on supervisory efforts to address money laundering, terrorism, and related threats. DSC will also submit an APP target/indicator on the FDIC's large bank and Basel-related activities. The 16 high-level CPOs are tentatively affirmed to continue in 2005, although divisions and offices may propose changes in those objectives in their 2005 planning/budget submissions.

Source: 2005 Planning and Budget Formulation Guidelines.

DOF's Budget Send also included the guidelines established by senior executive management; proposed 2005 APP annual goals, indicators, and targets; and proposed 2005 CPOs.

We reviewed the 2004 responses to DOF regarding division and office reviews of the 2005 proposed planning and budget documents and found that several organizations proposed changes to the CPOs and the APPs. Specifically, in regard to the CPOs, one division proposed a new CPO, four divisions or offices offered new initiatives, and one division proposed rewording a CPO initiative. Five divisions or offices also offered changes to the proposed 2005 APP goals, targets, and indicators.

In October 2004, FDIC senior executive managers held a 2-day planning and budget conference intended to finalize the proposed plans and budget for 2005. The January 2005 edition of *FDIC News* included an article entitled, "The 2005 Budget: *Responding to a Changing Industry*," which featured an interview with the CFO who portrayed the October meeting as follows:

> On the first day of the conference, senior managers discuss plans and goals and do not focus on numbers at all. Senior managers talk about changes in the banking industry and how the FDIC needs to position itself. Senior managers look at workload, goals for the prior year, performance against those goals, and what the goals should be going forward. On the second day of the conference, senior managers go through a sorting process, determining the new initiatives that need funding and where there are opportunities to save money. Senior managers review, prioritize, debate, and make decisions on each division and office budget. Senior managers also finalize the corporate goals and objectives for the coming year.

The FDIC Chairman finalized the FDIC budget and approved the 2005 CPOs in December 2004, prior to the start of the 2005 budget year. However, FDIC executive managers further modified the CPOs following discussions at the annual Leadership Conference in February 2005. One of the changes was an additional initiative – heighten the awareness of the banking industry and the public about major consumer protection issues, including identity theft and financial privacy, predatory lending, and access to affordable financial services. The initiative is included in the strategic objective of Sound Policy and the high-level goal to enhance the FDIC's leadership role in federal banking policy deliberations. The FDIC's COO and CFO explained

that while DOF strived to complete the budget and CPOs prior to the budget year, the FDIC has to maintain flexibility to amend its corporate goals to reflect emerging issues and risks.

Corporate Directives

We concluded that the FDIC needs to update its corporate guidance for the planning and budget process. DOF issues a planning and budget guide to divisions and offices each budget year. However, the FDIC does not have a corporate directive that documents the planning and budget framework that the FDIC adopted for the 2004 and 2005 budgets.

The FDIC directive currently in place for the planning and budget process is Circular 4100.1, *FDIC 2001 Planning and Budget Guide*, dated November 2, 2000. The circular provides guidance on the preparation and submission of all deliverables associated with only the 2001 planning and budgeting process, culminating in the approval of the Corporation's 2001 budget. The circular states that the corporate budget is linked to the Corporation's Strategic Plan through the FDIC's APP and division and office APPs. The circular does not reflect the baseline budgeting process implemented for the 2004 and 2005 budgets, the budget and planning responsibilities of DOF's CPPM, or the division and office input to APP or CPO goals and initiatives. DOF stated that it had requested that DOA cancel Circular 4100.1 and omit it from the FDIC's Directive System. However, as of the date of this report, Circular 4100.1 is still in the FDIC Directive System.

FDIC Circular 1212.1 entitled, *FDIC Directive System*, dated September 14, 2000, states that the FDIC uses directives to issue its policies and procedures and to provide written information to managers, employees, and others. According to Circular 1212.1, an effective directive system is extremely important because it provides for the orderly and efficient accomplishment of responsibilities, increases management control, and provides continuity of operations. We agree with the FDIC's position on the importance of directives and believe that a new directive is needed to institutionalize and increase the familiarity with and knowledge of the streamlined planning and budgeting process adopted for the corporate operating budget.

Matter for Further Review: Annual Performance Plan Goals and Corporate Performance Objectives

As discussed earlier, the FDIC has two sets of performance measures that factor into the corporate operating budget; the statutorily required APP and the CPOs. Adopting a single set of performance measures would, in our view, streamline and better integrate the planning and budget process as well as align the goals with performance. Nevertheless, FDIC senior executives have determined a need exists for both the APP and the CPOs, and the Corporation is not inclined to consolidate these measures. We plan to perform additional evaluation work related to the FDIC's performance measures and report on this issue in a separate report.

Recommendations

To ensure that division and office budget representatives have adequate information to review and respond to Non-CIRC IT and external training allocations and plus/minus 10-percent exercises in future planning and budget cycles, we recommend that the Director, DOF:

1. Revise DOF budget instructions to divisions and offices to more clearly describe the detailed support and methodology for developing the Non-CIRC IT allocation; the procedure for communicating the approved allocations to divisions and offices; and the requirement that divisions and offices obtain DIT concurrence and signature to approve (a) reductions of the maintenance and sustaining base and (b) proposed initiatives to be pursued by each division/office with its discretionary funds.

2. Revise DOF budget instructions to divisions and offices to more clearly describe the detailed support and methodology for developing the external training allocation and the procedure for communicating approved allocations to divisions and offices.

3. Provide the division and office planning and budget representatives the results and accompanying benefits of the plus/minus 10-percent exercise for the 2004 and 2005 budget cycles, provide more detailed guidance for identifying budget increase or decrease proposals for future budget cycles, and revise DOF budget instructions to describe how the approved plus/minus proposals will be communicated to the division and office planning and budget representatives.

To communicate and institutionalize the streamlined planning and budget process to all corporate employees, we recommend that the Director, DOF:

4. Develop and issue a corporate directive that establishes management's expectations for the corporate planning and budget process to include:

    - roles and responsibilities of those involved in strategic and annual business planning, formulation and execution of budgets, and budget and performance plan reporting;
    - an overview of the planning and budgeting process, including strategic planning, development of workload assumptions, annual performance planning, corporate performance planning (CPO), baseline budgeting formulation, senior management review and approval, and FDIC Board review and approval;
    - high-level planning and budget schedule outlining the key elements of the process;
    - authority and legal citations;
    - references to other related directives, such as directives on performance measurement, and management and executive compensation; and
    - planning, budget, and performance reporting requirements.

Corporation Comments and OIG Evaluation

On September 2, 2005, the Director, DOF, provided a written response to the draft report, which is presented in its entirety in Appendix IV of this report. DOF agreed or agreed in part with each recommendation. Appendix V presents a summary of the FDIC's responses to our recommendations. Recommendations 1, 2, and 3 relate to revisions to DOF budget guidance on the Non-CIRC IT allocation, external training allocation, and plus/minus 10-percent exercise. In response to recommendations 1 and 2, DOF stated that while it had not revised budget guidance, it had held numerous meetings and communications with division and office representatives to more clearly explain these processes. DOF also noted that the CU Governing Board had approved a concept to phase in a personal learning account program by 2007 to replace the external training allocation process.

Subsequent to providing its written response, DOF provided additional information evidencing that meetings were held to improve communications with DIT and the divisions/offices regarding the Non-CIRC IT allocation. We reviewed the 2006 budget guidance and noted that DOF had added language to emphasize the requirement for DIT concurrence on the division/office non-CIRC IT submissions and to communicate that the external training allocation was being replaced by a new Personal Learning Account Program. DOF gave us documentation to support the efforts to more clearly communicate with divisions/offices on this new initiative and its impact on the divisions' and offices' proposed 2006 training budgets. We concluded that DOF's alternative actions met the intent of our recommendations and were sufficient to resolve, disposition, and close recommendations 1 and 2.

For recommendation 3, DOF agreed to issue a summary of the disposition of the plus/minus 10-percent ideas submitted during the 2006 budget process. However, DOF did not see the need to assess the methodology for and evaluate the impact and benefits of the plus/minus 10-percent exercise on the FDIC's budget process or for additional guidance to divisions and offices. The CFO 2004 study of the planning and budgeting processes raised concerns about the exercise, the findings detailed in our report questioned the value of the exercise, and most division and office representatives that we interviewed expressed the need for clarification on the exercise. Therefore, we encourage DOF to reconsider evaluating the implementation and the benefits of the exercise when planning for the 2007 CPC process. Nevertheless, we concluded that DOF's planned action is sufficiently responsive to resolve recommendation 3, but it will remain undispositioned and open until we have determined that the agreed-to corrective action has been completed and is effective.

Finally, with respect to recommendation 4, DOF agreed to develop a corporate directive on the planning and budgeting process that will cover all or most of the recommended content. DOF responded that staff has already started work on the directive and anticipates circulating a draft directive for comment by the end of the first quarter 2006. The action taken and planned by DOF management is responsive to the recommendation. However, the recommendation will remain undispostioned and open until we have determined that the agreed-to corrective action has been completed and is effective.

Objectives, Scope, and Methodology

We performed this evaluation at the request of the CFO who asked that the OIG follow up on a July 2001 study of the CPC that we conducted jointly with the Office of Internal Control Management (OICM), now OERM. In early 2004, DOF requested that we postpone the start of this assignment until the last quarter of calendar year 2004 to allow the FDIC to complete a second budget cycle under its new baseline budgeting methodology as opposed to the prior methodology wherein the divisions and offices developed "bottom-up" budgets. In addition, DOF and the CFO requested that we benchmark the Corporation's CPC process against other agencies' and organizations' processes. The CPC includes the following processes: planning, workload assumptions, and budgeting.

Accordingly, using the July 2001 study as a baseline, the objectives of this evaluation were to:

- determine whether DOF was successful in reducing resources dedicated to the CPC and streamlining the CPC process;
- assess the FDIC's success in integrating budget and performance goal information; and
- benchmark the Corporation's process against other agreed-upon agencies' or organizations' processes.

The scope of our evaluation focused primarily on the 2005 CPC. However, we learned that CFO staff had performed an internal study, *2004 Budget and Planning Formulation Post-Mortem*. Accordingly, we sought information available regarding the 2004 study to identify the reported findings and recommendations and determine whether any recommended corrective actions had been implemented for the 2005 CPC process.

To identify the number of individuals involved in the CPC process, we asked the planning and budget contacts in each division and office to identify those individuals within the division or office (including regional and field office contacts) that were responsible or provided input for the planning, workload assumptions, and budgeting processes.

We performed field work in the FDIC divisions and offices located in Washington, D.C. The business line divisions are DSC, DIR and DRR. The support divisions included: DOA, DIT, the Legal Division, DOF, and CU. The offices included OERM, Office of Public Affairs (OPA), Office of Ombudsman, Office of Executive Secretary, Office of Legislative Affairs (OLA), Office of Diversity and Economic Opportunity (ODEO), and the OIG. In addition, we performed field work, for benchmarking purposes, at other agencies and organizations, specifically, the OCC, FRB, NCUA, Department of Labor (DOL), and Pension Benefit Guaranty Corporation (PBGC).

We performed our evaluation from November 2004 through June 2005 and in accordance with generally accepted government auditing standards. To accomplish our objectives, we performed the following.

- Prepared analysis of observations and suggestions stemming from the 2001 OIG/OICM study of the CPC.
- Obtained and reviewed DOF's schedule for the Proposed 2005 Planning Process and Budget Process.
- Developed a timeline of critical planning and budget activities for 2001 through 2005.
- Interviewed officials in DOF's CPPM Section.

- Developed and used a standard questionnaire to conduct interviews with division and office planning and budget representatives.
- Interviewed budget/planning representatives in each of the FDIC headquarters divisions and offices, with the exception of the Executive Office.
- Identified FDIC contracting information relating to the CPC process.
- Discussed the process for developing corporate workload assumptions with DIR.
- Reviewed DOF's Budget Send, Budget Receive, and Final Board Approved Budget for 2005.
- Reviewed relevant planning and budget documentation including: 2005-2010 FDIC Strategic Plan; FDIC 2004 and 2005 Annual Performance Plans; 2002-2005 CPOs; and notes/handouts from the July 8, 2004 (Overview of the 2005 Planning and Budget Process) Budget Kick-off Meeting and July 21, 2004 Executive Meeting on establishing 2005 Planning and Budget Guidance and from the 2005 Budget Conference held on October 4-5, 2004.
- Conducted interviews with OCC, FRB, NCUA, DOL, and PBGC planning and budgeting representatives regarding benchmarking.
- Researched requirements of GPRA and OMB Circular A-11, Parts 2 and 6, and obtained information on their applicability to the FDIC.

We did not evaluate whether the streamlined budget procedures, and particularly the use of baseline budgets from prior years as the starting point for new budgets, resulted in a more effective and efficient allocation of resources.

Validity and Reliability of Performance Measures

We reviewed the FDIC's performance measures under the GPRA, the CPOs, and DOF's annual performance plan. We determined that the 2004 and 2005 CPOs included an initiative to reduce corporate operating costs through the following goals.

- 2004 CPO Goal: Substantially reduce corporate operating costs.
- 2005 CPO Goal: Submit a proposed 2006 ongoing operations budget that is at least 5 percent lower than the 2005 budget.

Further, DOF's 2004 and 2005 Annual Performance Plans included the following goals related to planning and budgeting.

- 2004 Goal: Perform an assessment of 2004 budget formulation process, and make appropriate changes to 2005 process.
- 2005 Goal: Implement for the 2006 process any accepted recommendations from the OIG evaluation of the corporate planning and budget process.

We did not test to determine whether specific internal control procedures had been properly designed and placed in operation to provide reasonable assurance for the validity and reliability of these performance measures because the evaluation objectives did not require that level of effort. We plan to perform a GPRA evaluation at a later date.

Reliability of Computer-based Data

We identified and relied on some computer-based data pertaining to the following systems that DOF used to assist in the CPC. However, we did not test the reliability of computer-based data

extracted from these automated systems because our evaluation objectives did not require determining the reliability of computer-based data obtained from the FDIC's systems.

- Business Planning System and supporting subsystems
- Project Number Information Application, which originates from DOF's Financial Data Warehouse
- DIT's Project Budget System

Internal Control

We gained an understanding of relevant control activities by (1) reviewing the FDIC's processes for strategic planning; annual performance planning and reporting; developing CPOs; estimating staffing requirements; formulating the corporate operating budget; and approving the corporate operating budget, and (2) by assessing the FDIC's progress in integrating budget and planning and streamlining the process. To gain this understanding, we interviewed individuals dedicated to planning, workload assumptions, and budget formulation. In addition, we reviewed the 2001-2006 strategic plan, 2004 and 2005 performance plans, 2004 annual and quarterly performance reporting, 2002-2005 CPOs, workload assumptions, budget and planning information disseminated to and received from division and office directors, and the final Board approval of the corporate operating budget. The finding section of the report contains recommendations to strengthen certain policies and procedures and guidance.

Laws and Regulations and Fraud and Illegal Acts

The objectives of this evaluation did not require us to determine whether the FDIC was in compliance with laws and regulations related to the CPC. However, the FDIC is subject to certain aspects of the GPRA. The FDIC's position is that portions of the GPRA specifically apply to the Corporation. Under the GPRA, the FDIC is required to prepare and submit to the OMB a 5-year strategic plan and an annual performance plan. The FDIC is also required to file an Annual Report on Program Performance to the Congress.

The nature of our evaluation objectives did not require that we assess the potential for fraud and illegal acts. However, throughout the evaluation, we were alert to the potential for fraud and illegal acts, and no instances came to our attention.

Other Agency Practices

As requested by DOF and the CFO, we benchmarked the Corporation's planning and budgeting processes against other agreed-upon agencies' or organizations' processes. We selected other federal financial institution regulators, i.e., FRB, OCC, and NCUA, as well as DOL and PBGC for our benchmarking analysis. DOL was selected because OMB gave these organizations a "green light" score[9] under a 2004 PART assessment. In addition, we contacted the OTS, which was in the process of changing its planning and budgeting process. OTS suggested that it may not be beneficial to include the organization in our benchmarking evaluation as its new processes had not been fully implemented. Thus, we eliminated OTS from our analysis.

We met with the planning and budget formulation staff at FRB, OCC, NCUA, DOL, and PBGC to determine how these other agencies/organizations approached or accomplished their planning and budgeting processes. We discussed the following topics, related to planning, staffing, and budgeting during our meetings with each of the five agencies:

Benchmarking Discussion Topics Relating to Planning, Staffing, and Budgeting

- an overview of the agency's strategic and annual planning process (GPRA);
- an overview of the agency's staffing requirements process;
- an overview of the agency's budget formulation process;
- the agency's general approach to budgeting, e.g., top-down, bottom-up, baseline, 1- or 2-year cycle, etc.;
- whether the agency has any performance objective or initiative processes in addition to GPRA;
- the number of staff involved and time frames for each of the planning, staffing and budgeting processes;
- how the agency integrates the budgeting and planning processes; and
- whether the agency has guidance or procedures for the planning and budgeting processes and whether the agency received any guidance in regard to achieving the goals of the President's Management Agenda Initiative 5 – *Budget and Performance Integration*

Source: OIG analysis.

Based on overviews provided by the five agencies, we identified the following as other agency practices in the area of planning and budgeting:

1) Start the planning activities as early in the cycle as possible. For example, the PBGC started its planning sessions in November 2004 for its 2007 (fiscal year) budget and will begin preparing its baseline budget in March 2005. NCUA held its strategic leadership conference in January 2005 as a kickoff for NCUA's 2006 planning and budgeting process.

2) Assess programs using OMB's PART. DOL views PART as a good diagnostic tool to help identify weaknesses in a program and attributes DOL's success in integrating budget and performance to PART. Additionally, OMB has completed a PART review at PBGC and of one NCUA program and has a second review planned.

[9]The OMB Scorecard uses the concept of red, yellow, and green stoplights to indicate agencies' status and progress made in PMA initiatives.

3) Prepare a Performance Budget. NCUA developed its 2005 Annual Performance Budget to serve as an element of budget development and reflect a greater correlation between NCUA's strategic and annual performance goals and resource allocation. FRB is also developing a performance budget.

4) Adopt a 2-year budget. The FRB believes that the 2-year budget allows more time for planning and is less of an administrative burden. The FRB implemented a 4-year planning and 2-year budget cycle in 1997. According to documentation we obtained, its goal was to provide a more comprehensive strategic planning framework and greater involvement by the FRB Board in setting priorities. The FRB budget formulation cycle extends from June to November every other year. The FRB completes an annual review of the budget and an assessment of the expenses and performance and provides the results of both to the Board.

5) Adopt one set of performance measures. The FRB, NCUA, and DOL use their GPRA goals to measure annual performance. PBGC senior and second-level managers develop GPRA corporate-level goals and initiatives, and program managers establish stretch/target goals that are related to the GPRA corporate-level initiatives.

6) PBGC requires business cases for new initiatives. Business cases must identify the benefits to the PBGC and the manner in which the initiative supports the PBGC's goals.

Table 8 presents a summary of the practices employed by the five agencies that we reviewed.

Table 8: Summary of Other Agency Practices

Practices	*Agencies/Organizations*				
	DOL	*FRB*	*NCUA*	*OCC*	*PBGC*
Start planning activities early			X	X	
Assess programs using OMB's PART	X		X		
Prepare a performance budget		X	X		
Adopt a 2-year budget		X			
Adopt one set of performance measures	X	X	X	X	X
Prepare business cases for new initiatives					X

Source: Interviews with other agencies.

Planning and Budget Guidance

DOF presented a proposal to streamline the planning and budgeting process to the FDIC's Operating Committee on May 8, 2003 that included the following key elements.

Proposed 2004 Planning and Budget Formulation Process
• Proposed 2004 budget/staffing targets would be developed centrally for each division and office. DOF would calculate a 2003 spending baseline for each division and office, adjustments to the 2003 spending baseline would be made to reflect 2004 planning/budget guidelines established by senior management, and divisions and offices would have 30 days to confirm or identify exceptions to their proposed 2004 budgets.
• Corporate planning activities would be fully integrated into a consolidated planning and budget formulation process, including Annual Performance Plan goals and corporate/business line performance objectives.
• Senior management would perform a collective review of proposed 2004 Corporate Performance Objectives, spending priorities, and cost reduction ideas at a 2-day senior management retreat.
• The review process for planned contract spending would be simplified.
• Projected timeframes would start in mid-July with senior management establishment of 2004 planning and budget guidelines and end in mid-October through mid-November with the proposed budget and staffing briefing to the FDIC Chairman and the Board.

Source: May 8, 2003 DOF presentation to the FDIC Operating Committee.

DOF also used this process for the 2005 planning and budget formulation exercise. On August 13, 2004, DOF issued planning and budget guidance for the 2005 budget formulation exercise that consisted of a memorandum transmitting the respective division or office 2005 operating budget (Attachment 1 of the memorandum contained 9 major expense categories) and 14 other attachments. The memorandum included (1) a statement that the proposed operating budget was based on projected 2005 spending with adjustments to reflect workload and other factors identified in the 2005 corporate planning guidelines adopted at the July 21, 2004 senior management meeting and (2) a footnote stating that projected spending generally reflected actual expenses through June 30, 2004 and budgeted expenses for the remainder of the year (not to exceed the 2004 budget). DOF's 2005 Budget Send documents are listed on the next page.

Budget Send Package
• Attachment 1 – Proposed 2005 Operating Budget (Excludes CIRC Investment Projects Non-Salaries and Compensation). • Attachment 2 – Proposed 2005 Staffing Authorization. • Attachment 3 – 2005 Budgeted Staff. • Attachment 4 – Projected Program Code Distribution By Major Expense Category. • Attachment 5 – Instructions for Completing Division/Office Review of Proposed 2005 Plans and Operating Budgets. • Attachment 6 – 2005 Planning and Budget Formulation Guidelines (Based on FDIC Senior Management Discussion on July 21, 2004). • Attachment 7 – Corporate Workload Assumptions (2004-2009). • Attachment 8 – 2005 Proposed IT Allocation (estimates of the system maintenance/sustaining base requirements that must be met). • Attachment 9 -- Proposed 2005 Annual Goals, Indicators, and Targets (APP) By Supervision, Insurance, and Receivership Management Programs. • Attachment 10 – Proposed 2005 Corporate Performance Objectives. • Attachment 11 – 2005 Planning/Budget Checklist. • Attachment 12 – 2005 Budget Increase/Decrease Proposals. • Attachment 13 – Projected 2005 Contract Spending. • Attachment 14 – Projected 2005 Non-CIRC Information Technology Initiatives. • Attachment 15 – 2005 Fund Allocation Percentages.

Source: DOF's 2005 Budget Send.

Corporation Comments

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

Division of Finance

September 2, 2005

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

FROM: Fred Selby
Director, Division of Finance

SUBJECT: Comments on Draft Report Entitled *Follow-up Evaluation of The FDIC's Corporate Planning Cycle* (Assignment No. 2005-010)

We have reviewed the draft report entitled *Follow-up Evaluation of the FDIC's Corporate Planning Cycle* (Assignment No. 2005-010). This follow-up evaluation was conducted at the request of the Chief Financial Officer, who was primarily interested in determining whether the Division of Finance (DOF) had been successful in reducing the resources devoted to the Corporation's annual planning and budget formulation process and in integrating the planning and budget formulation processes.

We were pleased to note that your report confirmed that DOF had been successful in meeting both of these objectives:

- Page 7 of your draft report notes that DOF "reduced the cycle time for the budget formulation exercise from over six months for the 2001 budget to three months for the 2005 budget" and that "most divisions and offices reported that they had dedicated fewer resource" to the 2005 planning and budget formulation process than in prior years.

- Page 20 of your draft report states that the FDIC in 2005 "used a more integrated planning and budget process that was an improvement over the process used in 2001 wherein the staffing, budgeting, and planning processes overlapped and were not well integrated."

As you know, the Chief Financial Officer has publicly indicated on several occasions that he believes that the FDIC has been a leader in integrating its planning, budget, cost management, and performance management activities, consistent with the President's Management Agenda (PMA), despite the fact that the Corporation is not subject to the formal PMA reporting requirements of the Office of Management and Budget.

I am attaching our responses to the specific recommendations in the draft report. In addition, we have provided you separately a set of corrections to specific references in the report.

If you have questions, please contact Thomas E. Peddicord at X62427.

Attachment

cc: Mr. App

Attachment

Comments on Draft Recommendations

1. Revise DOF budget instructions to divisions and offices to more clearly describe the detailed support and methodology for developing the Non-CIRC IT allocation; the procedure for communicating the approved allocations to divisions and offices; and the requirement that divisions and offices obtain DIT concurrence and signature to approve (a) reductions of the maintenance/sustaining base and (b) proposed initiatives to be pursued by each division/office with its discretionary funds.

   Although the 2006 planning and budget formulation process was initiated prior to receipt of the draft report, DOF has devoted considerable effort this year to improved communications with both DIT and divisions/offices regarding how non-CIRC IT allocations were developed and the procedures to be followed by division/office in reviewing them and determining how they will be used. This was particularly complex because of a number of unique factors that affected the 2006 non-CIRC IT allocations. Numerous meetings were held with division/office budget contacts, selected division/office IT liaison staff, and DIT representatives for this purpose, and the requirement for DIT concurrence on the division/office submission was emphasized. Although the actual budget instructions were not substantially revised, we believe that these steps have fully addressed the OIG's concerns in this area.

2. Revise DOF budget instructions to more clearly describe the detailed support and methodology for developing the external training allocation and the procedure for communicating approved allocations to divisions/offices.

   Due to the widespread discontent with the process used to determine 2005 external training allocations, DOF and the CFO had initially decided to integrate the funding for external training back into the general baseline budget allocations, which would have permitted all divisions/offices to determine their own budgetary requirements for external training. However, the Corporate University (CU) Governing Board on July 25, 2005, approved, in concept, a proposal to fully phase out all Type 1 and 2 training by 2007, to be replaced by a new Personal Learning Account program that will be governed by procedures to be issued by CU. Accordingly, we do not think this recommendation is applicable any longer. Nonetheless, as with non-CIRC IT allocations, DOF has devoted considerable effort to effective communications with divisions/offices regarding this new initiative and its impact on their proposed 2006 budgets.

3. Provide the division and office planning and budget representatives the results and accompanying benefits of the plus/minus 10-percent exercise for the 2004 and 2005 budget cycles, provide more detailed guidance for identifying budget increase or decrease proposals for future budget cycles, and revise DOF budget instructions to describe how the approved plus/minus proposals will be communicated to the division and office planning and budget representatives.

The plus/minus 10-percent exercise was designed to ensure that senior management carefully considered possible significant changes in corporate spending priorities during the annual budget formulation process. The concept was "borrowed" from the Federal Reserve Board as a device to stimulate discussion of overall corporate spending priorities, since the baseline budgeting methodology would otherwise result in little or no change in those priorities from year-to-year. These proposals were, by definition, beyond what divisions/offices felt they needed to accomplish their basic missions (any shortfall in funding for that purpose should be submitted as a requested adjustment to the DOF-proposed budget). Hence, there was never an expectation that there would be a detailed accounting for each proposal.

The exercise was employed with only limited success during the 2004 planning and budget formulation process, as documented in the DOF post-mortem on that process. The process was revised somewhat for the 2005 process, based on discussion at the Operating Committee. In addition, prior to the 2005 Planning and Budget Conference, the Chief Operating Officer and the CFO culled through the ideas submitted by divisions/offices and selected those that they felt were the most significant and worthy of discussion at the conference. As the draft report notes, these decisions were communicated in writing by DOF to divisions/offices prior to the conference.

Thus, this recommendation appears to address only the need for post-conference communications with division/office planning and budget representatives. As we advised the OIG evaluation team, DOF believes that primary responsibility lies with division/office directors attending the conference to communicate to their staffs the results of the conference discussions. Nonetheless, following the 2006 Planning and Budget Conference, DOF will issue a summary of the disposition of the ideas submitted in response to the plus/minus 10-percent exercise. However, we see no purpose in reconstructing such documents for the 2004 and 2005 conferences, nor do we see the need for any revisions to the budget instructions as they relate to the plus/minus 10-percent exercise.

4. Develop and issue a corporate directive that establishes management's expectations for the corporate planning and budget process.

As the draft report notes, DOF issued detailed written guidance to divisions and offices on both the 2004 and 2005 planning and budget processes. Thus, this recommendation relates only to the absence of a formal directive within the Corporation's directives system. Such a directive would necessarily be very high level, and we do not believe that it would significantly enhance division/office understanding of the process or their roles and responsibilities in it. Nevertheless, by the end of the first quarter of 2006, DOF will prepare and circulate for comment a draft directive on the planning and budget process that will cover all or most of the recommended content. This will continue to be supplemented by detailed annual instructions for divisions/offices.

Management Response 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	Dispositioned:[b] Yes or No	Open or Closed[c]
1	DOF conducted numerous meetings with division and office budget contacts, selected division and office IT liaison staff, and DIT representatives regarding the development of non-CIRC IT allocations, the procedures to be followed in reviewing the allocations, and the requirement for DIT concurrence.	Completed	$0	Yes	Yes	Closed
2	CU's Governing Board is in the process of phasing out all Type I and Type II training by 2007, and is replacing the training with a new Personal Learning Account Program to be governed by procedures issued by CU. DOF is devoting considerable effort to effectively communicate with divisions/offices the new Personal Learning Account initiative and its impact on their proposed 2006 budget.	Completed	$0	Yes	Yes	Closed
3	DOF will issue a summary of the disposition of the initiatives submitted in response to the plus/minus 10 percent exercise for the 2006 budget process.	January 31, 2006	$0	Yes	No	Open
4	DOF will prepare and circulate for comment a draft directive on the planning and budgeting process that will cover all or most of the recommended content.	March 31, 2006	$0	Yes	No	Open

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

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

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