



Office of Inspector General

January 23, 2004
Report No. 04-005

The FDIC's Strategic Alignment of Human
Capital

EVALUATION REPORT





DATE: January 23, 2004

MEMORANDUM TO: Arleas Upton Kea, Director
Division of Administration

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

SUBJECT: Final Report Entitled *The FDIC's Strategic Alignment of Human Capital* (Report Number 04-005)

The subject final report is provided for your use and comment. Please refer to the Executive Summary section for the overall results. Our evaluation of your response is incorporated into the body of the report, and your response is included in its entirety as an appendix to the report. Management's proposed actions for addressing our recommendations are responsive, and the recommendations are resolved. The recommendations will remain undispositioned and open for reporting purposes until we have determined that agreed to corrective actions have been completed and are effective.

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

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Executive Summary

WHY WE DID THIS EVALUATION

Last year, we reported that the Federal Deposit Insurance Corporation (FDIC) was implementing several initiatives and organizational changes that impacted its overall human capital program. Because of the significance of human capital management to the success of the Corporation, we decided to evaluate how the Corporation's overall human capital planning framework has evolved.

EVALUATION OBJECTIVE

The objective of this review was to assess the extent to which the FDIC has created a coherent framework of human capital policies, programs, and practices designed to steer the Corporation toward achieving its mission, goals, and objectives. The intent of this review was to provide a high-level assessment of the Corporation's overall human capital framework. We did not evaluate the success or effectiveness of specific human capital initiatives. In this review, we focused on assessing whether:

- The FDIC's strategic plan establishes an agency-wide vision that guides human capital planning and investment activities.
- The FDIC has a system in place to continually assess and improve human capital planning and investment and their impact on mission accomplishment.
- Managers are held accountable for effective implementation of human capital plans and overall human capital management.

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

WHAT WE FOUND

The FDIC's human capital framework addresses the underlying human capital concepts that the Office of Personnel Management (OPM), Office of Management and Budget (OMB), and the U.S. General Accounting Office (GAO) consider vital to successful human capital management. Specifically:

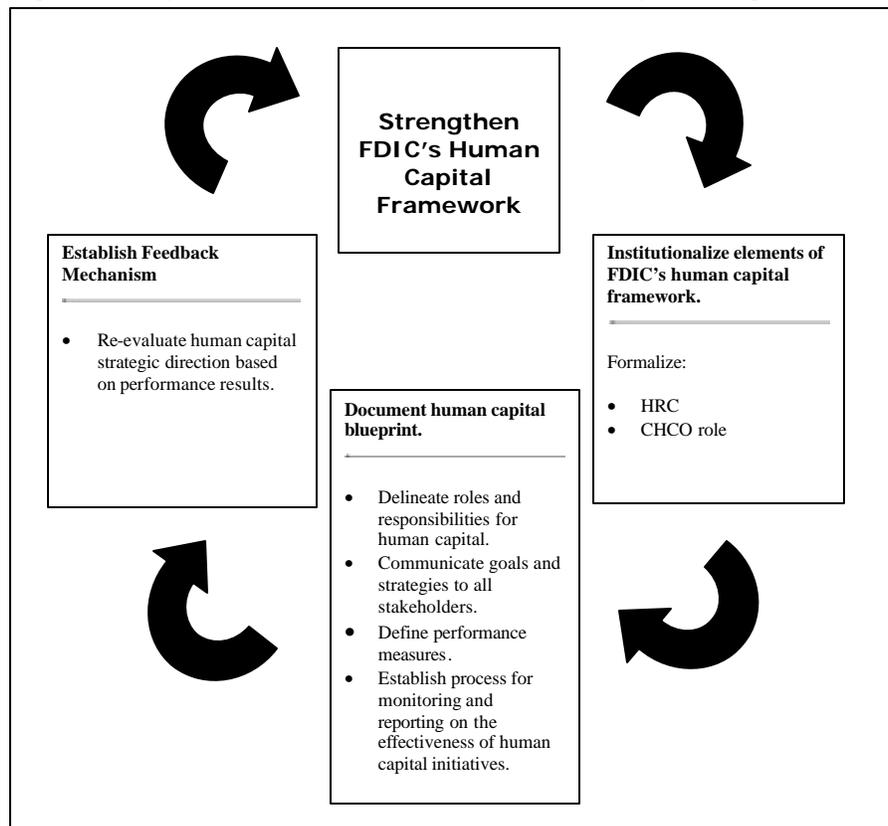
- The FDIC's human capital vision, strategic goals, and strategic objectives are integrated in the FDIC's corporate-level planning documents: the *Strategic Plan*, *Diversity Strategic Plan*, and *Annual Performance Plan*. These plans collectively provide an agency-wide vision and framework to guide the FDIC's human capital activities. Moreover, the FDIC's 2002 and 2003 *Corporate Performance Objectives* have included a number of human capital-related objectives and have been significant drivers of human capital policy for the past 2 years. The draft 2004 *Corporate Performance Objectives* also include human capital-related goals.

- The Corporation’s Human Resources Committee (HRC) has become a key element of the Corporation’s human capital planning framework. In addition, the Chairman has appointed a Chief Human Capital Officer (CHCO) who is responsible for bringing a strategic approach to the FDIC’s human capital initiatives and for aligning human capital policies with organizational mission, goals, and outcomes. The CHCO and corporate executives from the major program and support divisions comprise the HRC.
- Various organizational components are accountable for the implementation of human capital initiatives. However, the FDIC has not yet established a comprehensive blueprint and performance monitoring system for evaluating the effectiveness of its investment in human capital initiatives or activities.

**RECOMMENDED
COURSE OF
ACTION TO MEET
FUTURE
CHALLENGES**

Figure 1 outlines important steps needed to strengthen the FDIC’s human capital program. These actions will sustain the FDIC’s long-term commitment and focus on strategic human capital management and will maintain transparency in the development, implementation, and monitoring of human capital initiatives.

Figure 1: Steps Needed to Enhance the Human Capital Program



Source: OIG Analysis.

Background

The Human Capital Concept

The human capital concept evolved as the GAO and others considered how strategic management of human resources should be integrated with the government reforms designed to create a framework for more businesslike and results-oriented management. For example, the Government Performance and Results Act of 1993 created a focus on strategic planning never before seen in the federal sector. However, GAO and other agencies began to recognize that if the government was to continue to successfully and effectively improve its operations, agency executives must make a conscious effort to integrate strategic human resources management into agency planning and decision-making processes.

GAO has reported that to attain the highest level of performance and accountability, federal agencies depend on three enablers: people, process, and technology. The most important aspect is people because an agency's people define its character and ability to perform. In other words, an agency's employees are its greatest asset – its “human capital.” The term “human capital” was thought to be more useful than human resources because it allowed managers to consider employees as assets to be valued rather than resources that are consumed.

Basic Human Capital Principles

- *People are assets whose value can be enhanced through investment.*
- *An organization's human capital approaches should be designed, implemented, and assessed by the standard of how well they help the organization achieve results and pursue its mission.*

GAO Report *Human Capital: A Self-Assessment Checklist for Agency Leaders*(GAO/OCG-00-14G)

In 1999, GAO published a discussion draft (GAO/GGD-99-179) of its report, *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G), which was issued in final form in 2000. The self-assessment was intended to be a starting point for creating “human capital organizations” -- agencies that focus on valuing employees and aligning their people policies to support organizational performance goals. Although GAO has reported that government-wide progress has been made in the human capital arena, in 2001, GAO designated strategic human capital management as a high-risk area. Specifically, GAO reported that agencies still lacked a consistent strategic approach to marshaling, managing, and maintaining the human capital needed to maximize government performance and ensure accountability. To help agencies address the human capital challenges, GAO issued an exposure draft, *A Model of Strategic Human Capital Management*, dated March 2002. This model, which builds upon GAO's self-assessment report, is designed to help agency leaders effectively lead and manage their people and integrate human capital considerations into daily decision making and programs.

GAO is not the only entity promoting strategic human capital management.

- In August 2001, the President placed human capital at the top of his management agenda.
- In October 2001, OMB developed standards of success for each part of the President's Management Agenda (PMA), including the strategic management of human capital.
- In December 2001, OPM released a human capital scorecard to assist agencies in responding to human capital standards for success.
- In October 2002, OMB and OPM, in collaboration with GAO, approved revised standards for success in the human capital area of the PMA. To assist agencies in responding to the revised PMA standards, OPM released the *Human Capital Assessment and Accountability Framework*.

The intent of this guidance is to focus agency attention on the need for strategic human capital management as summarized below.

**Human Capital
Strategic Alignment
*Building a Framework***

Integrating decisions about people with decisions about the results an organization is trying to obtain.

OPM Report *Strategic Human Resources Management: Aligning with the Mission* (September 1999)

The legislation creating the Department of Homeland Security Act, enacted in 2002, also included provisions relating to government-wide human capital management, including the creation of a CHCO position for major agencies and the Federal CHCO Council. One of the functions of a CHCO is to align the agency's human capital policies and programs to an organization's mission, strategic goals, and performance outcomes. Although portions of the CHCO Act are not applicable to the FDIC, the Chairman appointed the Associate Director, Human Resources Branch, as the FDIC's CHCO. The FDIC's CHCO has been participating in federal CHCO Council meetings and plays a key role in supporting the FDIC's HRC.

Evaluation Results

The FDIC’s Strategic Human Capital Planning Framework

The FDIC has integrated its strategic human capital planning framework (see Figure 2) into the FDIC’s overall corporate planning process. Specifically, the FDIC’s HR vision and goals for strategic human resource management are integrated in the FDIC’s core corporate-level planning, budgeting, and investment processes. The overall process is built upon the principle that the Corporation’s success in achieving its strategic goals depends on the talent and expertise of its employees.

Figure 2: The FDIC’s Strategic Human Capital Planning Framework



Source: Discussions with HRC members and OIG analysis of GAO guidance.

* According to FDIC’s CHCO, FDIC management is responsible for negotiating changes in workplace conditions, compensation, and benefits with the National Treasury Employees Union and strives to promote a fair and inclusive work environment.

Figure 2 also illustrates that the FDIC’s human capital framework addresses the key human capital cornerstones that GAO, OPM, and OMB consider vital to successful human capital management. Appendix II provides an overview of the guidance promulgated by these various federal agencies and our analysis thereof. We found the underlying conceptual framework of the guidance to be similar. We refer to human capital cornerstones promulgated by GAO in this report because the FDIC had previously conducted an internal review of its human capital program using GAO’s *Framework for Human Capital Self-Assessment*.

Human Capital Cornerstones

Key challenges that must be addressed to effectively manage human resources.

- Leadership:** *An effective organization includes a senior leadership team committed to developing more effective ways of doing business, accomplishing results, and investing in human capital.*
- Strategic Human Capital Planning:** *Agencies must establish a clear set of organizational intents, including a clearly defined mission, core values, objectives, and strategies and then integrate their human capital approaches to support strategic and programmatic goals.*
- Acquiring, Developing, and Retaining Talent:** *Agencies must identify their current and future human capital needs and then create strategies for filling the gaps.*
- Performance Culture:** *Effective human capital strategies require a collaborative environment where a diverse set of managers, teams, and employees are empowered to accomplish programmatic goals.*

GAO Exposure Draft A Model of Strategic Human Capital Management (GAO-02-373SP)

GAO has reported that these long-standing challenges will not be quickly or easily addressed and that there is no single approach for successful human capital management. However, the guidance from OMB, OPM, and GAO is clear -- the management of human capital must be an integral part of mission achievement.

The FDIC’s Human Capital Vision, Goals, and Initiatives

The FDIC’s human capital vision, strategic goals, and strategic objectives are integrated in the FDIC’s corporate-level planning documents. A discussion on human resource management was included in the FDIC’s first strategic plan issued in 1995. Table 1 shows the documents that collectively define the FDIC’s human capital vision and goals.

Table 1: Integration of Human Capital in the FDIC’s Planning Documents

Document	Overall Purpose and Human Capital Element
<i>FDIC 2001-2006 Strategic Plan</i>	<ul style="list-style-type: none"> Provides a framework for implementing the Corporation’s mission and guiding management in decisions about the effective use of the FDIC’s strategic resources. Describes workforce issues at the FDIC and specific human resource goals.
<i>2003 Annual Performance Plan</i>	<ul style="list-style-type: none"> Defines what will be accomplished during the year to achieve the strategic goals and objectives. Includes annual performance goals that address human resource management. Includes a section on Operational Efficiency and Effectiveness that addresses human capital management.
<i>FDIC Strategic Plan on Diversity</i>	<ul style="list-style-type: none"> Outlines the Corporation’s vision and mission with respect to diversity and provides a long-term blueprint for the implementation of diversity initiatives.
<i>Annual Corporate Performance Objectives</i>	<ul style="list-style-type: none"> Describe three major principles that guide the FDIC’s 2003 Agenda: Stability, Sound Policy, and Stewardship. The Stewardship principle includes four Corporate Performance Objectives related to human capital.
<i>Division of Administration’s (DOA) Annual Performance Objectives</i>	<ul style="list-style-type: none"> Establishes individual DOA initiatives for achieving the FDIC’s annual performance objectives. Requires quarterly tracking of DOA initiatives.

Source: OIG analysis of FDIC corporate planning documents.

GAO reported that high-performance organizations define a “shared vision” – a mission, a vision for the future, core values, goals, objectives, and strategies – and communicate that shared vision clearly, constantly, and consistently. With regard to strategic human capital management, an agency should develop strategies to enhance the value of its employees and focus employees’ efforts on achieving the agency’s shared vision. The FDIC has initiated the following human capital management efforts:

- The FDIC has defined six core values that describe the guiding principles of corporate operations. These values were introduced in the FDIC’s first strategic plan in 1995 and have been presented consistently in subsequent plans. The values were designed to reflect the ideals employees should strive for as they accomplish the tasks needed to fulfill the mission. These core values represent one component of the FDIC’s “shared vision” – that is, how the FDIC has defined itself and its people.

- The FDIC's 1999 *Strategic Plan on Diversity* further defined the corporate vision for human capital by focusing corporate attention on the need to deal with the increasingly diverse employee pool and to conserve and replenish the FDIC's institutional knowledge and expertise in light of the number of employees eligible for retirement. The vision statement communicated that the FDIC wanted to be recognized as a preferred employer by the public and challenged employees to respect each other and work cooperatively and effectively with one another in achieving the Corporation's mission. Programs were established in the *Strategic Plan on Diversity* to realize that vision, including a mentoring program, a Career Management Program, and expanded Expressions of Interest. The plan also established policies and procedures to ensure fairness in the selection and promotion process. In a statement on diversity, the Chairman stated that the Corporation's ultimate goal is to weave the goals and objectives in the *Strategic Plan on Diversity* into the overall fabric of the FDIC's human resources policies and practices.

FDIC's Core Values

Effectiveness: The FDIC's reputation rests on ... its skilled and dedicated workforce.

Responsiveness: The FDIC responds rapidly, innovatively, and effectively to risks to the financial system.

Teamwork: The FDIC promotes and reinforces a corporate perspective and challenges its employees to work cooperatively across internal and external organizational boundaries.

Fairness: The FDIC promotes a work environment that is free of discrimination and that values diversity and adheres to equal opportunity standards.

Service: The FDIC's long and continuing tradition of service is supported and sustained by a highly skilled workforce that responds rapidly and successfully to changes in the financial environment.

Integrity: Integrity requires the FDIC to be, among other things, honest and fair.

FDIC 2001-2006 Strategic Plan

- The FDIC Chairman has stressed the need to create a culture that fosters a sense of corporate purpose. Specifically, the Chairman stated that it was time to actively encourage a greater understanding among employees as to their respective contributions to the FDIC's mission. To that end, the 2002 and 2003 *Corporate Performance Objectives* included specific human capital-related objectives – such as establishing a Corporate University and creating a more results-oriented pay structure. The Corporate University promotes corporate citizenship, ensures readiness through cross-training, and helps employees do their jobs better. One important component of the university will be a curriculum that will educate employees about the FDIC and its business lines – insurance, supervision, and receivership management. The FDIC's draft 2004 *Corporate Performance Objectives* also includes human capital-related initiatives such as: developing an effective pay-for-performance system, implementing a more integrated strategic approach to staffing and workforce planning, implementing strategies to increase managerial flexibilities in the Corporation's human resources processes, and making continued improvements to the Corporate University. Table 2 summarizes the FDIC's human capital vision and goals as described in its existing plans and the alignment of those goals to the fundamental human capital cornerstones.

Table 2: The FDIC’s Human Capital Vision and Goals

<p>HR Vision</p>	<p><i>Building a flexible permanent workforce for the future that understands the interaction among the Corporation’s three major business lines and can adapt quickly and effectively to changing workload priorities.</i></p> <p style="text-align: right;">Memorandum to All Employees from the Chief Operating Officer February 6, 2002 Leadership Conference</p>
<p>HR Goals Described in Corporate-level Plans as Related to Human Capital Cornerstones</p>	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Leadership <ul style="list-style-type: none"> • <i>Providing continuous attention to the management of FDIC’s human resources to ensure achievement of FDIC’s program goals and objectives.</i> <input checked="" type="checkbox"/> Human Capital Strategic Planning <ul style="list-style-type: none"> • <i>Aligning human resources with current and projected workload priorities.</i> • <i>Providing timely leadership transition.</i> • <i>Investing in training and development activities that will maintain a highly skilled workforce capable of handling anticipated work load and responding to unforeseen workload.</i> <input checked="" type="checkbox"/> Acquiring, Developing, and Retaining Talent <ul style="list-style-type: none"> • <i>Implementing programs that will make the FDIC an employer of choice.</i> • <i>Maintaining and developing a highly qualified, skilled, and diverse workforce.</i> • <i>Placing increased emphasis on recruiting well-qualified new employees.</i> <input checked="" type="checkbox"/> Results-Oriented Organizational Culture <ul style="list-style-type: none"> • <i>Establishing clear performance expectations and incentives to focus organizational efforts, motivate individual employees, and reward excellence.</i>
<p>Key to Program Success</p>	<p style="text-align: center;">Human Resources Committee</p>

Source: OIG analysis of FDIC strategic plans, performance plan, corporate performance objectives, and FDIC memoranda.

Strategic human capital management is not new to the FDIC. More than 10 years of downsizing required the FDIC to begin addressing strategic human capital management. However, FDIC officials believe that the HRC has strengthened the FDIC’s process for creating corporate-centered strategies for aligning people policies with the FDIC’s mission. HRC members and the Chief Operating Officer (COO) stated that in the past 2 years, the HRC has shaped corporate policy decisions related to the administration of the 2002 corporate buyout program, corporate reorganization, executive pay-at-risk program, executive position reclassifications, and the development of the Corporate University. Table 3 illustrates how these and other human capital initiatives align with the FDIC’s HR goals.

Table 3: Alignment of Human Capital Initiatives With Goals

FDIC’s Human Capital Goals	Overview of Key FDIC Human Capital-Related Initiatives
<p>Leadership</p> <ul style="list-style-type: none"> • <i>Providing continuous attention to the management of FDIC’s human resources to ensure achievement of FDIC’s program goals and objectives.</i> 	<ul style="list-style-type: none"> ☑ Human Resources Committee – Demonstrates significant senior leadership commitment to strategic human capital management. ☑ Designation of CHCO – Provides focal point in the FDIC for human capital management and ensures alignment with agency mission, goals, and outcomes. ☑ Appointment of Chief Learning Officer – Provides direction for Corporate University activities.
<p>Human Capital Strategic Planning</p> <ul style="list-style-type: none"> • <i>Aligning human resources with current and projected workload priorities.</i> • <i>Providing timely leadership transition.</i> • <i>Investing in training and development activities that will maintain a highly skilled workforce capable of handling anticipated workload and responding to unforeseen workload.</i> 	<ul style="list-style-type: none"> ☑ Workforce Planning – Analyzes the workforce needed to meet projected workload within divisions and offices and integrates skills assessment. ☑ Corporate Readiness Planning – Identifies resources within the FDIC that could temporarily be deployed in a period of significant and unexpected increases in insured depository institution failures. ☑ Firehouse Planning – Assesses the size of the workforce needed under a likely bank failure scenario to ensure that human capital is appropriately deployed. ☑ Succession Management – Identifies the talent most critical to the Corporation’s future and risk of talent loss. Provides guidance to divisions and offices to ensure that they have a workforce with the right experience and skills to fulfill their missions. ☑ Resource Management – Provides guidance for divisions and offices to assess whether vacant positions continue to be justified by projected workload and whether alternative ways to accomplish work might eliminate the need for a position. ☑ Corporate University – Includes core training programs for the FDIC’s three major business lines and gives employees the opportunity for cross-training and job rotation. Also provides an integrated framework for addressing future leadership development and skill requirements.

(continued on next page)

FDIC's Human Capital Goals	Overview of Key FDIC Human Capital-Related Initiatives
<p>Acquiring, Developing, and Retaining Talent</p> <ul style="list-style-type: none"> • <i>Implementing programs that will make the FDIC an employer of choice.</i> • <i>Maintaining and developing a highly qualified, skilled, and diverse workforce.</i> • <i>Placing increased emphasis on recruiting well-qualified new employees.</i> 	<ul style="list-style-type: none"> ☑ Diversity Program – Establishes programs designed to make the FDIC a preferred employer. ☑ 2003-2005 Compensation Agreement – Offers competitive salaries and benefits packages. ☑ Corporate University – Provides employees with a broad range of professional work experiences and career development opportunities for future advancement. ☑ Study of Existing FDIC Personnel Authorities and Options to be Pursued – Will identify the human resource flexibilities available to the FDIC, how to best use those flexibilities, and flexibilities the FDIC should pursue. ☑ Study of Executive Benefits Package – Will determine how the FDIC can redefine the FDIC's executive benefits package to maintain competitiveness while reducing costs.
<p>Results-Oriented Organizational Culture</p> <ul style="list-style-type: none"> • <i>Effective human capital strategies require a collaborative environment where a diverse set of managers, teams, and employees are empowered to accomplish programmatic goals.</i> • <i>Agencies must first align agency leaders' performance expectations with organizational goals and then cascade performance expectations to other organizational levels.</i> 	<ul style="list-style-type: none"> ☑ Executive Pay-at-Risk Program - Links executive pay increases to the accomplishment of corporate strategic objectives. ☑ Proposed Corporate Manager Pay-for-Performance Program – Will link pay increases for corporate managers to performance. ☑ Corporate Success Award Program - Annual award that provides for an increase in basic pay (in addition to the annual pay adjustment) for those employees who are recognized as the top contributors within the Corporation. ☑ Succession Management Program – As part of this program, the FDIC plans to meet strategic talent needs by matching executives with strong growth potential against critical jobs and develop executives for those jobs.

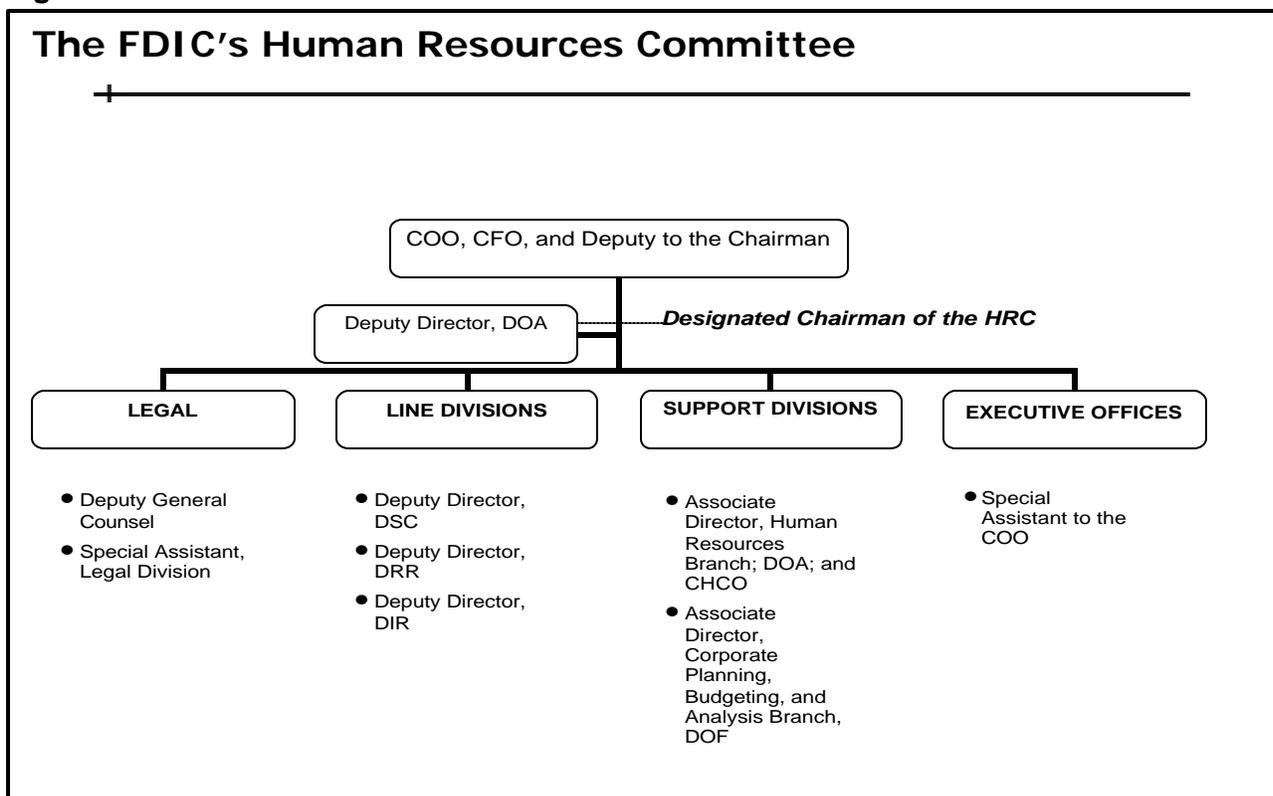
Source: OIG analysis of FDIC-provided information on human capital-related initiatives and discussions with HRC members.

As discussed later in the report, the next step for the FDIC is to develop a process for evaluating the effectiveness of these initiatives in achieving desired outcomes.

The FDIC’s Human Resources Committee

Members of the HRC, the COO, and Chief Financial Officer (CFO) have a favorable view of the HRC’s structure and effectiveness. The HRC has become the key ingredient in the Corporation’s human capital framework. The HRC is responsible for developing policy recommendations and monitoring the implementation of human resource initiatives. The CHCO is responsible for bringing a strategic approach to human capital initiatives and aligning human capital policies with the organizational mission, goals, and outcomes. As illustrated in Figure 3, the HRC brings together the support functions in the DOA (Human Resources Branch/CHCO), the Division of Finance (DOF’s corporate planning and budgeting function), and the Legal Division with executives from the major line divisions – Division of Supervision and Consumer Protection (DSC), Division of Resolutions and Receiverships (DRR), and Division of Insurance and Research (DIR).

Figure 3: HRC Structure



Source: OIG discussions with HRC members.

According to GAO, successful organizations integrate human capital professionals with agency leaders and line managers to develop strategic and program plans to accomplish agency goals. Through this joint action, agency and human capital leaders and their staffs share accountability for successfully integrating strategic human capital approaches into the planning and decision making of the agency. Furthermore, GAO reports that, in successful organizations, agency leaders embrace strategic human capital management. That is, agency leaders need to see people as vital assets to organizational success and must invest in those assets.

HRC members and FDIC’s senior-level executives believe the HRC has created a dynamic forum for discussing and developing strategies for addressing human capital-related issues on

an ongoing basis. Specifically, HRC members stated that serving on the HRC has made them more aware of the importance of strategic human capital management to the FDIC's success. In addition, the CHCO stated that the HRC gives him a forum to engage in meaningful dialogue about human resource issues with corporate officials.

In terms of operations, the HRC meets for several hours each week, but its work is not done unilaterally. For example, since it was established, a number of work groups have supported the HRC to help research various issues such as the Corporate University, pay-for-performance systems, and executive job classification. According to committee members, the HRC agenda has primarily been driven by human capital-related objectives included in the annual Corporate Performance Objectives, operational issues, or general workforce planning matters that arise during the year or during the annual corporate budgeting and planning process.

Generally, policy recommendations are vetted among the committee members who share information with their respective division directors. HRC members explained that this process allows all views to be integrated into the decision-making process. Policy recommendations are typically developed through consensus and are generally discussed with the COO, CFO, and Deputy to the Chairman. As members of the HRC, the Deputy General Counsel and Associate Director, Human Resources Branch (i.e., CHCO), ensure that policy recommendations are compliant with personnel laws and regulations and the FDIC's labor relations obligations.

Although current HRC members and senior corporate executives have a clear understanding of the HRC's role and operating practices, the HRC does not have a formal operating charter or guidelines or a long-term plan to guide its agenda. Considering the significant role of the HRC in developing human capital policy, the FDIC needs to take steps to institutionalize this committee. This effort should include defining the role of the CHCO to provide a focal point for coordinating human capital policies and carrying out policy decisions.

We reviewed charters of other FDIC committees, including the Audit Committee, Supervision Appeals Review Committee, Assessment Appeals Committee, Senior Management Oversight Committee, and Capital Investment Review Committee and found the following common characteristics:

- Mission/Purpose/Guiding Principles
- Functions/Scope/Responsibilities
- Authority
- Structure/Composition
- Meeting Schedule
- Operating Procedures

Institutionalize elements of the FDIC's human capital framework.

- The FDIC should formalize the role of the HRC. This should include creating a formal committee charter and delineating how the HRC interacts with other FDIC organizational components.
- The FDIC should define the CHCO's role relative to the HRC to help ensure that there is a focal point for human capital issues in the FDIC.

OIG Recommendation No. 1

Defining these characteristics for the HRC would provide a corporate-wide understanding of its role and operations and help to ensure the committee becomes a lasting element of the Corporation.

The FDIC's Process for Monitoring Implemented Human Capital Initiatives

The CHCO is responsible for bringing a strategic approach to human capital initiatives and aligning human capital policies with the organizational mission, goals, and outcomes, and the HRC is responsible for monitoring the implementation of the FDIC'S human capital initiatives. In addition, various FDIC organizational components – such as the DOA, DOF, and Office of Diversity and Economic Opportunity (ODEO) – have a significant role in monitoring the implementation and effectiveness of human capital-related initiatives and activities. The FDIC reports it has invested considerable resources in recruiting, developing, and maintaining a dedicated, high-performing, and diverse workforce. However, the FDIC has not yet established a comprehensive process for monitoring and evaluating the effectiveness of its human capital initiatives or activities in achieving program goals.

According to OPM, OMB, and GAO guidance, human capital professionals and agency line managers should share the accountability for successfully integrating strategic human capital approaches into the planning and decision-making process of the agency. All human capital policies and practices should be designed, implemented, and assessed by the standard of how well they help the agency pursue its shared vision.

Monitoring Performance

Agencies must pay attention to whether their investment in human capital programs pays off. A focus on results keeps agencies from wasting money.

**White House OPM Project Director
for Human Capital Performance**

Consistent with the Chairman's overall vision for creating a high-performing, results-oriented FDIC culture, the HRC's challenge is to adopt human capital practices to create a flexible workforce with an adequate skill mix to address diverse challenges created by changes in the economy and the financial services industry and by advancing technology. As previously discussed, the HRC has implemented several initiatives designed to achieve this vision. The HRC chairman explained that the HRC's efforts are measured through the *Corporate Performance Objectives* reporting process, which includes quarterly reports to the FDIC's Chairman. Additionally, executives' annual pay increases are directly linked to the accomplishment of these objectives. To date, the success of the HRC has been measured by its ability to implement human capital initiatives, not by the effectiveness of these initiatives over time.

Other organizational components also monitor the implementation of human capital-related initiatives. For example, the ODEO is responsible for monitoring and reporting on the FDIC's progress in meeting its diversity goals. The ODEO issues quarterly progress reports and an annual performance report. Additionally, DOF monitors data related to the FDIC's overall workforce for budgeting and planning purposes, while the DOA tracks division-specific goals related to human capital as part of its own annual performance plan. Further, a strategic plan is being developed for the Corporate University.

The HRC has contemplated the need for developing a human capital plan, but most HRC members do not view the plan as necessary. In fact, before the HRC was established, FDIC human resource professionals conducted a human capital self-assessment based on GAO’s report, *Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G). The FDIC used the results of that assessment to draft a *Human Resources Strategic Plan*. However, the plan was never finalized. Generally, officials commented that the existence of the HRC mitigated the need for a plan because issues are being addressed in “real time.” In addition, officials believe that the FDIC’s human capital goals are clearly defined in other corporate planning documents, and specific human capital objectives for achieving those goals are included in annual corporate performance objectives. Accordingly, most HRC members indicated that a separate human capital plan would be duplicative. Nonetheless, a few members stated that it might be helpful to create a longer-term roadmap.

Although elements of the FDIC’s human capital framework are included in existing corporate strategic planning documents, the lack of a comprehensive blueprint increases the risk of program redundancy, inconsistency, and lack of accountability.

Accordingly, we believe developing a comprehensive human capital blueprint would strengthen the FDIC’s overall human capital program. Such a blueprint would not only help to cohesively document existing elements of the FDIC’s human capital planning framework, but would also help the FDIC to assign responsibility for evaluating the effectiveness and return on investment of human capital-related initiatives and activities. The blueprint would also serve another important purpose – communicating the FDIC’s human capital goals and strategies so that all stakeholders have an understanding of the FDIC’s human capital program.

Develop a human capital blueprint, and establish a feedback mechanism.

- Summarize the FDIC’s human capital vision, goals, and strategies.
- Define the FDIC’s strategic human capital management key organization components and their roles and responsibilities.
- Communicate goals and strategies to all stakeholders.
- Define performance measures.
- Assign responsibility for monitoring and reporting on the effectiveness of human capital initiatives.
- Establish process for re-evaluating human capital strategic direction based on performance results.

OIG Recommendation No. 2

Conclusion and OIG Recommendations

According to GAO, high-performing organizations treat strategic human capital management as a fundamental part of effective overall management. Strategic human capital management is not new to the FDIC. Downsizing the organization for more than a decade required the FDIC to begin addressing strategic human capital management. Specifically, the FDIC has done the following:

- Integrated human resource management with its core planning process and plans.
- Established the HRC and designated a CHCO to develop policy recommendations and monitor the implementation of the Corporation's human capital initiatives. The work of the HRC demonstrates the commitment of the FDIC executives to effectively manage FDIC human resources.
- Aligned specific human capital initiatives with the FDIC's HR goals.

These steps demonstrate that the FDIC understands the fundamental human capital concept of effective "people management" as key to organizational success. The GAO has reported that committed, sustained, and inspired leadership and persistent attention on behalf of all interested parties will be essential if lasting changes are to be made and the human capital-related challenges are to be successfully addressed. We made the following recommendations to the Director, DOA, intended to help ensure that the FDIC's progress in strategic human capital management becomes institutionalized as a way of doing business.

- **Sustaining long-term commitment and focus.** The FDIC should create a formal HRC charter and operating guidelines similar to those of other FDIC committees. Doing so would help ensure that the value and work of this committee is sustained by future leaders and understood by FDIC stakeholders. Considering the importance of the HRC in the FDIC's human capital framework, creating the charter and guidelines would be a logical step in the evolution of the program. The role of the CHCO should also be clearly defined to establish a focal point for policies and initiatives and ensure coordinated human capital strategies.
- **Maintaining transparency in the development, implementation, and monitoring of human capital initiatives.** The FDIC should develop a coherent human capital blueprint that comprehensively describes the FDIC's human capital framework and establishes a process for agency leaders to systematically monitor the alignment and success of these initiatives relative to the goals. Such a blueprint would be beneficial in: (1) promoting a corporate-wide understanding of the human capital program, (2) clearly delineating roles and responsibilities, and (3) establishing a tool for assessing progress toward program goals.

Corporation Comments and OIG Evaluation

On January 21, 2004, the Director, DOA provided a written response to the draft report. The response is presented in Appendix III of this report. DOA concurred with our recommendations and plans to complete corrective actions by December 31, 2004. The following summarizes DOA's response.

(1) The FDIC should create a formal HRC charter and operating guidelines similar to those of other FDIC committees.

DOA agreed with the OIG's recommendation to create a charter for the HRC. DOA stated that it believed a charter would ensure the continued functioning of the HRC as an effective and efficient administrative and leadership change agent for the FDIC into the future. DOA plans to create a charter and operating guidelines for the HRC by June 30, 2004.

Management's planned action is responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that the agreed-to corrective action has been completed and is effective.

(2) The FDIC should develop a coherent human capital blueprint that comprehensively describes the FDIC's human capital framework and establishes a process for agency leaders to systematically monitor the alignment and success of these initiatives relative to the goals.

DOA agreed with the OIG's recommendation to develop a human capital blueprint after it finalizes the HRC charter and operating guidelines. DOA stated that it did not necessarily agree with the OIG's conclusion that not having a human capital blueprint increased the risk for the lack of program accountability. Nonetheless, DOA stated that a human capital blueprint with performance measures would be helpful to monitor whether human resource programs are successful. DOA plans to develop a human capital blueprint by December 31, 2004.

Management's planned action is responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until we have determined that the agreed-to corrective action has been completed and is effective.

A summary table showing management's responses to our recommendations is presented in Appendix IV.

Objective, Scope, and Methodology

The objective of this review was to assess the extent to which the FDIC has created a coherent framework of human capital policies, programs, and practices designed to steer the corporation toward achieving its shared vision. The intent of this review was to provide a high-level assessment of the Corporation's overall human capital framework and develop suggestions for continued improvement. Specifically, we focused on assessing whether:

- The FDIC's strategic plan establishes an agency-wide vision that guides human capital planning and investment activities.
- The FDIC has a system in place to continually assess and improve human capital planning and investment and their impact on mission accomplishment.
- Managers are held accountable for effective implementation of human capital plans and overall human capital management.

To accomplish our objective, we did the following:

- Reviewed relevant human capital guidance from the GAO, OPM, and the OMB to gain an understanding of human capital-related concepts.
- Reviewed the FDIC's strategic and annual performance plans, FDIC's Diversity Strategic Plan and annual reports, the annual Corporate Performance Objectives for 2002 and 2003, and draft 2004 Corporate Performance Objectives to identify the FDIC's human capital vision, goals, and strategic objectives.
- Interviewed FDIC's COO; CFO; Deputy to the Chairman; Director, DOA; and HRC members to discuss their roles in and views of the FDIC's human capital framework.
- Reviewed HRC meeting minutes to further our understanding of the FDIC's human capital framework and initiatives.

As part of our high-level assessment of the Corporation's overall human capital framework, we also obtained and reviewed information on FDIC human capital-related initiatives, programs, and practices to ascertain the alignment of the initiatives with the FDIC's human capital goals and vision. We primarily focused on initiatives or programs that the HRC has initiated since it was established 2 years ago. However, we recognize that a framework of human capital policies existed before the establishment of the HRC. Accordingly, our scope included other programs, such as the Diversity program, which the FDIC established over 4 years ago. Our review of initiatives did not include testing the effectiveness of these initiatives in obtaining program results.

We conducted our evaluation from July to November 2003 in accordance with generally accepted government auditing standards.

Summary of Human Capital Guidance

The GAO reported that the government's approach to managing its people – its human capital – is the critical link in reforming and modernizing the federal government's practices. In its January 2001 High Risk Series update, GAO reported that many agencies were experiencing serious human capital challenges, such as skill imbalances, succession planning challenges, outdated performance management systems, and understaffing. The GAO concluded that the combined effects of these challenges posed a risk to the ability of agencies to efficiently, economically, and effectively accomplish their missions.

In recent years, the OPM, OMB, and GAO have published similar guidance for federal agencies to address these human capital challenges. Our comparison of these standards is shown in Table 4 on the following page.

Table 4: OIG Comparison of Human Capital Guidance

OPM STANDARDS	Strategic Alignment	Workforce Planning and Deployment	Leadership and Knowledge Management	Results-Oriented Performance Culture	Accountability	Talent
GAO CORNERSTONES	Strategic Human Capital Planning		Leadership	Results-Oriented Organizational Culture		Acquiring, Developing, and Retaining Talent
OMB STANDARDS FOR SUCCESS	Agency human capital is aligned with mission, goals, and organizational objectives.	No skill gaps/deficiencies exist in mission-critical occupations.	Agency has a citizen-centered organizational structure that is delayed and oriented toward performing the mission.	Agency differentiates between high and low performers through appropriate incentive and reward.		<p>Agency sustains a high-performance workforce that continually improves productivity; strategically uses existing personnel flexibilities, tools, and technology; and implements effective succession plans.</p> <p>Changes in agency workforce skill mix and organizational structure reflect increased emphasis on e-government and competitive sourcing.</p>

CORPORATION COMMENTS



FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Division of Administration

DATE: January 20, 2004

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

FROM: Arleas Upton Kea, Director [Electronically produced version;
Division of Administration original signed by Arleas Upton Kea]

SUBJECT: Draft Report Entitled *FDIC's Strategic Alignment of Human Capital*
(Assignment Number 2003-045)

The Division of Administration (DOA) has completed its review of the subject Office of Inspector General (OIG) report. We appreciate the review performed by the OIG and its recommendations. We are pleased to see that the OIG recognized the FDIC's efforts in human capital planning and concluded that the framework implemented by the FDIC addresses the underlying human capital concepts and integration endorsed by the Office of Personnel Management, Office of Management and Budget, and the U.S. General Accounting Office.

FDIC's commitment to human capital planning is clearly evident by the actions taken to place major human resource management initiatives prominently among annual Corporate Performance Objectives and to incorporate human resources considerations into the Corporation's strategic planning. This is extremely important to understand since the Corporation's ability to successfully achieve its strategic corporate goals is predicated on the strengths and talents of its employees. The human capital vision, strategic goals, and strategic objectives are key components to the long-term success at FDIC and have been integrated into the FDIC's Strategic Plan, Diversity Strategic Plan, and Annual Performance Plan. The FDIC Human Resources Committee (HRC) along with the Chief Human Capital Officer appointed by the FDIC Chairman provides the oversight and direction for the FDIC's human capital planning framework.

The OIG report included two recommendations for improvement. We have evaluated the recommendations and have provided a detailed response to include planned corrective actions and expected completion dates as appropriate.

MANAGEMENT DECISION

Finding: Sustaining Long-Term Commitment / Focus and Maintaining Transparency.

Condition: FDIC has not yet established a comprehensive blueprint and performance monitoring system for evaluating the effectiveness of its investment in human capital initiatives or activities.

Recommendation: We recommend that the Director, Division of Administration:

- (1) Create a formal HRC charter and operating guidelines similar to those of other FDIC committees; and
- (2) Develop a coherent human capital blueprint that comprehensively describes the FDIC's human capital framework and establishes a process for agency leaders to systematically monitor the alignment and success of these initiatives relative to the goals.

Management Response:

- (1) The Division of Administration agrees with the OIG's recommendation to create a charter for the Human Resources Committee (HRC). We believe that a charter will ensure the continued functioning of the HRC as an effective and efficient administrative and leadership change agent for the FDIC into the future.

During the first half of 2004, we will create a charter and operating guidelines, which preserve the flexibility that has served the HRC so well to this point. Clearly, one of the greatest assets of the HRC to date has been its operating flexibility and its ability to not only vet and formulate recommendations but also provide a forum for open and candid discussion of difficult and challenging HR issues facing the Corporation now and in the future. When the Committee formulates and presents human capital recommendations to the three Deputies to the Chairman who comprise the Executive Review Board (ERB), all pertinent business and program issues have been thoroughly explored by the HRC and appropriate HR managers. The ERB in turn has an opportunity to discuss decisions, options, and issues at length with the HRC and appropriate staff before presenting final recommendations to the Chairman. This saves time and assures the ERB and Chairman that important program, cost benefit, and business issues are addressed before final recommendations are made. Once approval is received, the HRC and appropriate HR program managers brief the FDIC Operating Committee as one more step in a process to ensure that senior managers are kept informed and fully involved in important human capital decisions and implementation plans. For human capital initiatives to succeed, it is essential that senior management know and understand the goals and plans, and actively support them.

Estimated Completion Date: June 30, 2004

- (2) While we would not necessarily agree with the OIG's assessment that a lack of a human capital blueprint increases the risk of accountability, we do believe a blueprint that includes performance measures will be helpful. We view performance measures as a simple way to find if human resources programs are successful.

A human capital blueprint will be developed during the second half of 2004, once the HRC charter and operating guidelines are finalized.

Estimated Completion Date: December 31, 2004

If you have any questions regarding the response, our point of contact for this matter is Andrew Nickle, Audit Liaison for the Division of Administration. Mr. Nickle can be reached at (202) 942-3190.

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MANAGEMENT'S RESPONSE TO RECOMMENDATIONS

This table presents the management response that has been made on the recommendations in our report and the status of the recommendations as of the date of report issuance. The information in this table is based on management's written response to our report.

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	FDIC will create a charter and operating guidelines for the HRC.	June 30, 2004	N/A	Yes	No	Open
2	FDIC will develop a human capital blueprint.	December 31, 2004	N/A	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.