United States General Accounting Office

GAO

Testimony

Before the Committee on Banking and Financial Services
House of Representatives

For Release on Delivery
Expected at
10:00 a.m., EDT
on Tuesday
July 29, 1997

THE RESULTS ACT

Observations on Draft Strategic Plans of Five Financial Regulatory Agencies

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The Results Act: Observations on Draft Strategic Plans of Five Financial Regulatory Agencies

Under the Government Performance and Results Act (GPRA or Results Act), executive agencies are to develop strategic plans in which they define their missions, establish results-oriented goals, and identify strategies they will use to achieve those goals for the period 1997 through 2002. The House Committee on Banking and Financial Services asked GAO to provide its perspective on the draft plans of the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Office of Thrift Supervision, and the National Credit Union Administration.

On the basis of its review of the draft plans, GAO found that each plan contained most of the components required by the Results Act. Three of the draft plans had all six components, and two draft plans had five of the components.

GAO's analysis of individual plan components showed that the plans had mission statements that broadly defined the purpose of the agency and goals and objectives that were somewhat results-oriented. Some agencies had useful discussions of approaches and strategies to achieve the goals and objectives, while others could have benefitted from more discussion of the resources needed. Each agency discussed key external factors but only one discussed how those factors would affect the achievement of its goals. None of the draft plans discussed how the external factors would be addressed.

In general, two sections were most in need of improvement. Each agency could strengthen its section on the relationship between strategic and annual goals by explicitly discussing the link between the two types of goals. Also, each agency could improve its section on how program evaluations were used and a schedule for future evaluations. Because of the complex set of factors that determine regulatory outcomes, measuring the impact of a regulatory agency's programs will be a difficult challenge going forward. However, the use of program evaluations both to derive results-oriented goals and to measure the extent those goals are achieved is an important part of the process.

The Results Act: Observations on Draft Strategic Plans of Five Financial Regulatory Agencies

Mr. Chairman and Members of the Committee:

I am pleased to be here today to assist the Committee in its review of the draft strategic plans of the five federal regulators of depository institutions. These consultations are a step in implementing the Government Performance and Results Act of 1993 (GPRA or Results Act) whose purpose is to reduce the cost and improve the performance of the federal government.

Mr. Chairman, you asked that we provide analyses and observations about the agencies' draft strategic plans, including the strengths and weaknesses of each plan, the extent to which the agencies are experiencing particular challenges that face regulatory agencies in their attempts to measure performance, and any suggestions we might have for improvements in these draft plans before they are finalized and submitted to Congress in September.

As its title indicates, the Results Act's focus is on results. In crafting the Act, Congress recognized that congressional and executive branch decisionmaking had been severely handicapped in many agencies by the absence of the basic underpinnings of well-managed organizations. These agencies lacked clear missions; results-oriented performance goals; well-conceived agency strategies to meet those goals; and accurate, reliable, and timely program performance and cost information to measure progress in achieving program results. In recent years, Congress has established a statutory framework for addressing these long-standing challenges and for helping Congress and the executive branch make the difficult trade-offs that are necessary for effective policymaking.[1] Improving management in the federal sector will not be easy, but the Results Act can assist in accomplishing this task.

The Results Act seeks to shift the focus of federal management and decisionmaking from a preoccupation with the number of tasks completed or services provided to a more direct consideration of the results of programs—that is, the real differences those tasks or services make in citizen's lives. As a starting point, the Results Act requires executive agencies to complete—no later than September 30 of this year—strategic plans in which they define their missions, establish results-oriented goals, and identify the strategies they will use to achieve those goals for the

[1]This framework includes as its essential elements the Chief Financial Officers Act (CFO); information technology reform legislation, including the Paperwork Reduction Act of 1995 and the Clinger-Cohen Act; and the Results Act. The CFO Act was expanded and amended by the Government Management Reform Act.

period of 1997 through 2002. The Results Act requires agencies to consult with Congress and solicit the input of others as they develop these strategic plans.

Beginning with fiscal year 1999, executive agencies are then to use their strategic plans to prepare annual performance plans. These performance plans are to include annual goals linked to the activities displayed in budget presentations as well as to the indicators the agency will use to measure performance against the results-oriented goals. Agencies are subsequently to report each year on the extent to which these goals were met, provide an explanation if these goals were not met, and present the actions needed to meet any unmet goals.

Congress can use the Results Act to provide the vital information that it needs to better make decisions. The congressional consultations on agencies' strategic plans provide an important opportunity for Congress and the executive branch to work together to ensure that agencies' missions are focused, goals are results-oriented and clearly established, and strategies and funding expectations are appropriate and reasonable.

One of the reasons we are here today is to provide our perspective on these plans. We note that, although these strategic plans are not due until September, each agency we reviewed had prepared a draft plan. Overall, we found that each agency had made an effort to adhere to the Results Act, and we recognize that agency officials are still in the process of updating and revising the draft plans.

In response to your request, we reviewed the draft plans submitted by the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the National Credit Union Association (NCUA). For each agency, we specifically determined whether the draft plan contained each of the six components required by the Results Act and assessed the components' strengths and weaknesses.[2] We also determined whether key statutory authorities were reflected in the agencies' draft plans and identified whether the plans

[2]The Results Act specifies that agencies' strategic plans should have the following critical components: (1) a comprehensive agency mission statement; (2) agencywide long-term goals and objectives for all major functions and operations; (3) approaches (or strategies) to achieve the goals and objectives and the various resources needed; (4) the relationship between the long-term goals/objectives and the annual performance plans required by the Act; (5) an identification of key factors, external to the agency and beyond its control, that could significantly affect the achievement of the strategic goals; and (6) a description of how program evaluations were used to establish and revise strategic goals and a schedule for future program evaluations.

addressed major management challenges and included indications of interagency coordination.

On the basis of our review of the draft plans, we found that each plan contained most of the components required by the Results Act. Three of the draft plans had all six components, and two draft plans had five of the components. In general, the draft plans reflected the statutory authorities and responsibilities of the federal regulators with respect to the institutions and matters within their jurisdictions. On the whole, the draft plans showed little evidence of interagency coordination.

Our analysis of individual plan components showed that the draft plans had mission statements that broadly defined the purpose of the agency and goals and objectives that were somewhat results-oriented and appropriate to the agency's mission. The content of other components varied across agencies. For example, some agencies had useful discussions of approaches and strategies to achieve the goals and objectives, while others could have benefitted from more discussion of the resources needed. Each agency discussed key external factors but only one discussed how those factors would affect the achievement of its goals. None of the plans discussed how the external factors would be addressed.

In general, two sections were most in need of improvement. Each agency could strengthen its section on the relationship between strategic and annual goals by explicitly discussing the link between these two types of goals. Also, each agency could improve its section on how program evaluations were used and a schedule for future evaluations. Due to the complex set of factors that determine regulatory outcomes, measuring the impact of a regulatory agency's programs will be a difficult challenge going forward. However, the use of program evaluations both to derive results-oriented goals and to measure the extent those goals are achieved is a key part of the process.

Our overall assessment of each agency's draft plan was generally based on our knowledge of that agency's operations and programs, our past and ongoing reviews of that agency, and other existing information available at the time of our assessment. Specifically, the criteria we used to determine whether each draft plan complied with the requirements of the Results Act were the Results Act itself and the Office of Management and Budget's (OMB) guidance on developing the plans (OMB Circular A-11, Part 2). To make judgments about the overall quality of the draft plans and their components, we used our May 1997 guidance[3] for congressional review of the plans as a tool. To determine whether the draft plan contained information on interagency coordination and addressed management problems we had previously identified, we relied on our general knowledge of each agency's operations and programs and the results of our previous work.

The requirements of the Results Act and OMB guidance indicate that the following factors should be addressed within the six components of strategic plans:

(1) The comprehensive mission statement should

- be brief and define the basic purpose of the agency and
- focus on core programs and activities.

(2) The description of general goals and objectives should

- contain general goals and objectives for the major functions and operations of the agency,
- elaborate on how the agency is carrying out its mission,
- contain a number of outcome-type goals, and
- be stated in a manner that allows a future assessment to be made on whether the goals are being achieved.

(3) The description of how the general goals and objectives will be achieved is to

- include discussion of operational processes, staff skills, and technologies as well as the human, capital, information, and other resources that are needed to achieve the goals and objectives and
- outline how the agency will communicate strategic goals throughout the organization and hold managers and staff accountable for achieving these goals.

(4) A strategic plan is to describe how the performance goals included in the agency's annual performance plans are related to the goals and objectives in its strategic plan.

[3] Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review (GAO/GGD-10.1.16, May 1997).

(5) A strategic plan is to identify and discuss key factors external to the agency and beyond its control, which could occur during the time periods covered by the plan and significantly affect the agency's achievement of its strategic goals. The plan is to

- briefly describe each key external factor,
- indicate its link with a particular strategic goal or goals, and
- describe how the factor could affect the achievement of the goals.

(6) Program evaluations—objective and formal assessments of the results, impact, or effects of a program or policy—are to include assessments of the implementation and results of programs, operating policies, and practices. The plan's program evaluation section should briefly describe

- program evaluations that were used in preparing the strategic plan;
- evaluation methodologies, scopes, and issues addressed; and
- a schedule for future evaluations.

Draft Strategic Plans Generally Contained Most Major Components

As shown in figure 1, each of the agencies' draft plans that we reviewed contained most of the six required components of the Results Act. Our assessment of whether the plans' components met the requirements of the Act follows the figure.

Figure 1: Inclusion of Strategic Plan Components in Selected Agencies' Draft Plans

Components required by the Results Act	Board of Governors of the Federal Reserve System	Federal Deposit Insurance Corporation	Office of the Comptroller of the Currency	Office of Thrift Supervision	National Credit Union Administration
Mission statement	●	●	●	●	●
Goals and objectives	●	●	●	●	●
Approaches or strategies to achieve goals and objectives	●	●	●	●	●
Relationship between strategic goals and annual performance goals	●	●	●		
Key external factors beyond the agencies control	●	●	●	●	●
How program evaluations were used to establish or revise strategic goals	●	●	●	●	●

● Present   ☐ Not Present

Source: GAO analysis.

The Board's Draft Strategic Plan

The Board developed a plan that had section titles addressing all of the components required by the Act. The Board did not designate a time frame for its draft plan.

- The mission statement was brief and focused on core programs and activities. The mission statement covered the Board's responsibilities for conducting monetary policy, maintaining the stability of financial markets, providing services to financial institutions and government agencies, and supervising and regulating banks and bank holding companies.

- The draft plan's section of goals and objectives had few outcome-oriented goals and objectives, which described the intended result, effect, or consequence that will occur from carrying out a program or activity. Some goals and objectives were stated in a manner that will not facilitate future assessment.
- The draft plan had a limited description of how the goals and objectives are to be achieved. The section referred to another Board document that detailed various organizational units and their staffing, budget, and objectives. The section also noted that specific organizational divisions are oriented toward meeting specific goals and objectives. In spite of this detail, the draft plan and associated documents were unclear on how the plan's goals and objectives were to be achieved and also unclear on what specific processes, technologies, and resources were to be used. In addition, the draft plan did not outline the process for communicating the goals and objectives through the agency and for assigning accountability to managers and staff for achievement of the goals and objectives.
- The draft plan had little discussion of the relationship between the strategic goals and annual performance goals. Instead of describing the type, nature, and scope of performance goals, the draft plan focused on information generated by its budget process. Board budget documents tended not to include performance goals that target a measurable level of performance against which actual achievement can be compared.
- The draft plan outlined several key external factors and challenges, including blurred lines between banks and nonbanks, globalization and financial markets, and competition for the provision of payment services. The draft plan also highlighted internal challenges, including the need for a larger proportion of "knowledge" workers, technological changes, and a decentralized organizational structure. However, the draft plan did not describe how external factors were linked with particular goals or how achievement of a goal could be affected by external factors.
- The draft plan did not clearly describe how program evaluations were used and a schedule for future evaluations. This section referenced Board documents developed for various planning, budgeting, and reporting purposes—including monetary policy reports to Congress, Inspector General reports, annual evaluations of bank plans and programs, and an annual performance report covering Board expenses and staffing. Although the annual performance report described program accomplishments, the report was not outcome-oriented. We did not review other documents referred to in the draft plan; therefore, we are unable to

comment on whether the documents had outcome-oriented measures and performance goals or whether they could measure achievement of intended objectives. The draft plan did not include a schedule for future program evaluations, outlines of methodologies used, descriptions of evaluation scope, or details about particular issues to be addressed.

FDIC's Draft Strategic Plan

The FDIC's draft plan had sections addressing each component required by the Act. The time frame covered by FDIC's draft was from 1997 to 2002.

- The draft mission statement briefly defined the basic purpose of FDIC, which is to maintain stability and public confidence in the nation's banking system.
- The goals and objectives set forth in the draft plan were supportive of FDIC's mission and were results-oriented. For instance, one of the goals of FDIC's draft plan was to identify and address risk to the deposit fund by (1) reporting current and emerging risks to the deposit fund and (2) ensuring that the risk-based premium system appropriately reflects risks to insurance funds.
- FDIC's presentation of approaches and strategies to achieve the goals and objectives described the objectives as well as the strategies and major initiatives that it planned to use to meet each of its goals. However, although FDIC generally described the processes to implement its strategies and major initiatives, it provided little discussion of the resources needed. For instance, under the strategies and major initiatives for the goal to "minimize costs to the insurance funds from failing financial institutions," FDIC discussed its major effort of focusing on "maintaining a highly trained, mobile staff" but did not state what resources would be needed. FDIC's draft plan had a section on resource strategies, but the section was not specifically linked to the goals.
- The component relationship between strategic goals and annual performance goals in FDIC's draft plan did not discuss the relevance and use of the performance measures in helping to determine the achievement of the goals and objectives. For instance, under each goal and objective, FDIC simply listed the annual performance measures that related to the goals and objectives and did not discuss how the listed performance measures would demonstrate the progress made in achieving the goals and objectives.
- FDIC's draft plan discussed some key external factors that could affect the achievement of its goals and objectives. These key external factors included the effect of the following: (1) domestic and international economic performance and (2) certain legislative initiatives—that is, the

merger of the Bank Insurance Fund and the Savings Association Insurance Fund and the resolution of differences in statutory and regulatory rules governing banking and thrift industries. Also, FDIC's draft plan reviewed several internal factors, including those related to financial accountability, organizational, and human resource issues. However, the link between key internal and external factors and particular goals and objectives was not described, and it was unclear whether and how key factors would influence goal achievement.

- FDIC's draft plan did not describe how program evaluations were used and a schedule for future evaluations. FDIC cited a quarterly performance reporting process, GAO and Inspector General reports, cost-benefit analyses, surveys of stakeholders, and other processes. However, the extent to which these reports and processes had been or would be used to develop or revise goals and objectives is unclear. Also, although the plan made reference to quarterly and ongoing program evaluation, the draft plan did not include a schedule for future program evaluations.

OCC's Draft Strategic Plan

OCC's draft plan discussed all six components required by the Results Act. The time frame covered by OCC's draft plan was from 1997 to 2002.

- The draft plan's mission statement broadly defined the basic purpose of the agency, which is to charter, regulate, and supervise national banks.
- The goals and objectives were results-oriented and seemed appropriate to meet the agency's mission. For instance, one of OCC's goals was to improve the efficiency of bank supervision and reduce the burden on banks by streamlining supervisory procedures and regulations.
- The approaches and strategies to achieve the goals and objectives, while not under the section labeled "description of how general goals and objectives are to be achieved," were discussed to some extent in the draft plan under the seven objectives that OCC designed to meet its four goals. The objectives generally described the processes needed to meet goals. However, most of the objectives did not include a description of the resources OCC will need to meet the objectives and goals.
- The draft plan outlined performance goals to be included in the annual performance plan as an effort to address the component relationship between strategic goals and annual performance goals. For instance, the draft plan listed some output-related performance measures. However, the plan did not relate these measures to the goals. In addition, the plan lacked specific performance measures for some of the goals, such as promoting competition and ensuring fair access to financial services.

- The draft plan identified some key external factors that could affect the achievement of the goals and objectives, and also provided a link as to how these factors might affect the achievement of the goals and objectives. These factors included the following: industry consolidation, electronic money and banking activities, and competitive environment changes.
- The draft plan included a section on program evaluation, but the plan neither discussed how evaluations were used nor included a schedule for future evaluations that outlined the general methodology used, a timetable, or the scope of evaluations.

OTS' Draft Strategic Plan

In its draft plan, OTS discussed five of the six components required by the Results Act. The time frame covered by OTS' draft plan was from 1997 to 2002.

- The draft mission statement stated that OTS was to effectively and efficiently supervise thrift institutions; to maintain the safety, soundness, and viability of the industry; and to support industry efforts to meet housing and other community credit and financial services needs.
- The draft goals and objectives appeared to lay out a general strategy to meet the agency's overall mission. However, the draft plan did not always state the goals and objectives in a way to allow for a future assessment of whether the goals would be achieved. For instance, OTS stated that one way to meet its goal to "improve credit availability by encouraging safe and sound lending in those areas of greatest need," was to "measure the degree to which the defined tasks of the OTS Community Affairs Program are met in any given year."[4] Yet, the draft plan neither clearly stated what tasks were to be performed nor linked how the accomplished tasks could ensure that the overall credit availability could be improved in the areas of greatest need.
- Although the draft plan identified general approaches and strategies to achieve the goals and objectives, it did not describe the resources required to achieve each goal and objective. Also, the draft plan did not establish time frames to accomplish each goal and objective.
- The relationship between strategic goals and annual performance goals was not specifically discussed in the draft plan. However, the relationship between strategic goals and annual performance goals was described in a separate performance plan. For instance, to achieve the goal to "maintain and enhance a risk-focused . . . approach to supervising thrift institutions,"

[4]The Community Affairs Program was established to emphasize community reinvestment, nondiscrimination in lending, and other consumer-oriented goals for thrift institutions.

the performance plan suggested ways in which OTS could improve the value and consistency of examinations. The performance plan also identified measures to accomplish these tasks.

- The draft plan discussed three key external factors that could affect OTS' accomplishment of its goals: (1) the performance of the U.S. economy, (2) the status of legislation to modernize the financial services industry, and (3) major interindustry consolidations. However, OTS did not link each factor to a particular goal or discuss how each factor might affect OTS' success in meeting its goals and objectives.
- The draft plan discussed how program evaluations were used in preparing the strategic plan. Program evaluations were used to establish goals and objectives, but there was no schedule for future evaluations.

NCUA's Draft Strategic Plan

NCUA's draft plan contained sections on all but one of the six components. The time frame covered by NCUA's draft plan was from 1997 to 2002.

- The mission statement of the draft plan was concise and defined the core responsibilities of the agency, which included maintaining the safety and soundness of the nation's credit unions.
- The goals and objectives section of the draft plan set forth six strategic goals and objectives that appeared to be generally supportive of the agency's mission statement and were stated in a results-oriented manner. For example, one of the goals was to "protect member savings in federally insured credit unions, thus preserving federal taxpayer funds."
- The draft plan provides a detailed description of the agency's approaches and strategies to achieve the goals and objectives as well as a discussion of the resources needed to accomplish the goals and objectives. For instance, NCUA planned to use the Community Development Revolving Loan Program[5] to achieve its goal to "promote the availability of financial services to people of small means."
- The draft plan did not have a specific section on the relationship between strategies and annual performance goals. However, the program evaluation section identifies specific performance measures and lists them under the goals and the objectives in the strategic plan. There is no discussion of the relationship between the measures and the goals.
- The draft plan identified several key external factors that could affect the achievement of NCUA's mission. The four factors cited were future economic downturns, the effects that rapid technological advancement could have on the credit union industry, a legal challenge before the

[5]The Community Development Revolving Loan Program consists of congressional appropriated funds that are to be made available to qualifying credit unions serving predominately low-income members and those financially underserved.

United States Supreme Court facing NCUA, and the possibility that credit unions may lose their congressionally mandated tax-exempt status. The draft plan stated that a dramatic downturn in the economy could have a negative impact on components of its annual performance plan, although it did not explain how key external factors could specifically affect NCUA's achievement of its goals and objectives. Finally, the draft plan indicated that a loss in its court challenge or a loss of its tax-exempt status could have a negative impact on the safety and soundness of the nation's credit unions.

- Although the draft plan had a section entitled "Program Evaluations," it neither discussed how program evaluations were used to develop the strategic plan nor did it contain a schedule for future program evaluations. Instead, the section contained information on the performance measures linked to the strategic goals and objectives.

Statutory Authorities and Responsibilities Generally Were Reflected in the Federal Regulators' Strategic Plans

Generally speaking, each draft plan reflected the statutory authorities and responsibilities of the federal regulator with respect to institutions and matters within its jurisdiction. This reflected the comprehensive nature of federal regulation of insured depository institutions and the nation's financial system. The federal regulatory agencies are charged with chartering or otherwise certifying the fitness of an institution to conduct business and (1) examining, (2) supervising, and (3) otherwise regulating institutions with respect to a broad range of complicated matters that include safety and soundness, consumer protection, and credit access. In addition, the Board is responsible for monetary policy and the nation's payments system.

Draft Agency Plans Rarely Discussed Interagency Coordination Efforts

There is a potential for various coordination problems among the Board, FDIC, OCC, OTS, and NCUA, yet only one of the draft plans indicated that coordination issues had been considered. All of these agencies have similar oversight responsibilities for developing and implementing regulations, conducting examinations and off-site monitoring, and taking enforcement actions for those institutions that are under their respective purview. We previously have reported that regulators, banking officials, and analysts believe that the multiplicity of regulators has resulted in inconsistent treatment of banking and thrift institutions in examinations, enforcement actions, and regulatory decisions.[6]

[6] Bank Oversight Structure: U.S. and Foreign Experience May Offer Lessons for Modernizing U.S. Structure (GAO/GGD-97-23, Nov. 1996).

In our November 1996 report, we also noted that Congress and regulatory agencies have taken some actions to improve interagency coordination. For instance, Congress created the Federal Financial Institutions Examination Council (FFIEC) in 1979—comprised of the Board, FDIC, OCC, OTS, and NCUA—to promote consistency among these agencies, primarily in the area of financial examinations. In addition, since June 1993, the Board, FDIC, OCC, and OTS have operated under a joint policy statement that was designed to improve coordination and minimize duplication in examination.

However, the regulatory agencies' draft plans that we reviewed did not discuss how they planned to coordinate with each other in the future and only one mentioned the need for future coordination. Moreover, the draft plans did not refer to the possibility of future coordination activities involving FFIEC.

External Factors Will Present Issues for Regulators

Although mentioned in the draft plans of some of the affected regulators, there are a number of common external factors that will present issues to these agencies. Because these issues are significant and likely to affect each of the agencies to some extent, their strategic plans could be more useful to the agencies, Congress, and other stakeholders if these challenges were more fully discussed in the plans. The issues include electronic innovation, new approaches to supervisory oversight, pending legislation on financial modernization, and consolidation in the financial services industry.

For example, electronic innovation, both in the way transactions are conducted and in the way information is transmitted, represents a regulatory challenge for all five regulators. The regulators have generally adopted a wait-and-see approach to this policy because they do not want to interfere with the pace or determine the direction of change. However, deciding if and when this policy should be altered and how regulation might be applied to electronic "banking" represents a major challenge.

The Board, FDIC, OCC, and OTS have all announced the intention of shifting their supervisory focus toward early detection of unsafe and unsound practices, rather than simply reacting to what the institutions do. OCC and the Board have announced new examination procedures to better monitor and control bank risk-taking by evaluating an institution's risk exposure and the quality of its risk management systems. In addition, FFIEC has revised the rating system used for examining financial institutions by adding an additional risk factor and increasing the emphasis on the quality of risk management.

Another issue facing all three bank regulators and OTS is the potential impact of legislation currently being considered to modernize the financial services industry. Provisions currently being considered by Congress could have far-ranging impact on each of the regulators. For example, the elimination of the federal thrift charter and merger of OTS with OCC could affect all three bank regulators and OTS in terms of (1) workload, if thrifts are allowed to choose between a federal or state charter, and (2) supervisory focus, if the balance sheet structure of thrifts remains different from that of banks.

Ongoing financial consolidation, in part related to interstate banking and branching could also have important implications for the structure of the bank regulators. Each of these regulators has traditionally had a regional structure that has more or less evolved over time. As more and more banks become multiregional or even national institutions, the old regional structure may become less relevant and a fundamental shift in geographical focus may be in order. OCC has recently announced a reorganization, which is at least partially due to the anticipated effects of interstate banking.

The Federal Reserve System, due to its broader mandate and unique structure, faces its own set of challenges. For example, an increased use of electronic payments in services provided to the Department of the Treasury and other agencies may result in realignments or reductions in certain staff at particular reserve banks. These and other challenges may, in turn, raise questions about the structure of the Federal Reserve System, such as the size, number, and location of the Federal Reserve banks.

Challenges Faced by Other Regulatory Agencies Also Apply to Depository Institution Regulators

In enacting the Results Act, Congress realized that the transition to results-oriented management would not be easy. The difficulties in moving to results orientation could be especially difficult for a regulatory agency. We analyzed a set of barriers facing certain regulatory agencies in their efforts to implement the Results Act in a June 1997 report.[7] These barriers included the following: (1) problems collecting performance data, (2) complexity of interactions and lack of federal control over outcomes, and (3) results realized only over long time frames.

[7] Managing for Results: Regulatory Agencies Identified Significant Barriers to Focusing on Results (GAO/GGD-97-83, June 24, 1997).

At least to some extent, each of these barriers is also applicable to federal regulators of depository institutions. For example, in focusing on the safety and soundness of depository institutions any measure (such as the average capital to risk-based asset ratio or the number of failed institutions) would be largely determined by overall economic conditions, rather than any particular regulatory intervention strategy. Finding approaches that could effectively disentangle regulatory intervention from the myriad of other forces influencing outcomes represents a difficult challenge for all of these agencies as they pursue results-oriented measurement.

Long time lags between actions and possible results could also be an issue for regulators of depository institutions. Historically, there has been a considerable time lag between the time that a financial institution makes a questionable underwriting decision and the time that a loan goes bad and finally affects earnings and eventually bank capital, thereby potentially threatening the institution's existence. Effective intervention by a regulator may also not show a result, at least not by many standard measures, for an extended period. This argues for constructing sophisticated measures that can account for long time lags and that are evaluated over a period longer than a year.

Mr. Chairman, one of the most difficult challenges facing these agencies, as implementation of the Results Act proceeds, will be separating a program's impact on the agency's objectives from the impact of external factors that are often outside the program or agency's control. Although developing performance measures or evaluating program impact is difficult in these situations, it is important that agencies make efforts toward that end. We note that all the agencies' plans we reviewed had one section that consistently was in need of development: the discussion of how program evaluations were used to establish goals and how such evaluations might be used in the future.

In a recent report on the agencies that piloted the use of the Results Act and their use of program evaluations, we found that almost all had access to staff trained or experienced in performance measurement or program evaluation and that this training and experience proved very helpful in the agencies' attempts to implement performance measurement.[8] Most of the agencies whose draft plans we reviewed have research capability and in some cases a substantial research staff. Such analytical resources provide

[8] Managing for Results: Analytic Challenges in Measuring Performance (GAO/HEHS/GGD-97-138, May 30, 1997).

a potential source for researching and developing innovative methods for measuring results. Any new methods or research approaches developed by one agency could also be useful to others because, at least in the areas of supervision and regulation, there are many similarities in the activities undertaken by these agencies.

This concludes my prepared statement. I would be pleased to respond to any questions you or other members of the Committee may have.

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