



EM-31.4

Category: Board & Management Operations

Topic: Human Capital Management

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Overview

This section contains FCA's standard procedures for examining Human Capital Management; however, the guidance for some procedures is currently under development. In the interim, the following links provide related guidance that was contained in the old FCA Examination Manual:

- [EM-510 Overall Assessment](#)
- [EM-530 Human Resources](#)

Examination Procedures and Guidance

General

1. Plan & Strategies:

Evaluate management's assessment of human capital needs and determine if strategies and actions are sufficient to ensure an effective, diverse, and inclusive workforce.

Guidance:

Strategic human capital planning is necessary to ensure the continued development of a workforce that is high-performing and aligned with the Farm Credit System's (System) mission. The issues facing System institutions are complex and require a broad range of skills, experiences, and backgrounds that are also sought after by many businesses. Therefore, implementing a strategic human capital plan is a key step in building and maintaining an effective organization by recruiting, developing, and retaining a high-performing and diverse workforce.

FCA Regulation [618.8440\(b\)\(7\)](#) requires each institution to adopt a human capital plan. Plan content and format will vary by institution, depending on factors such as size and scope of operations. However, the plan must include a description of the institution's workforce and management and an assessment of their strengths and weaknesses. In addition, the plan must include a description of the institution's workforce and management succession programs.

Institutions must incorporate strategies and actions into their human capital plans to strive for diversity and inclusion, as required by FCA Regulation [618.8440\(b\)\(7\)\(iii\)](#). A diverse range of employees may more effectively reach a broader and more diverse base of producers, thereby increasing the customer base. Moreover, diverse employees bring different perspectives to the institution and may result in development of more creative and innovative products and services that increase the customer base. To flourish, diversity requires an inclusive environment using the talents of people of different backgrounds, experiences, and perspectives to help the institution

achieve its business goals. Greater diversity and inclusion promotes more effective and innovative businesses, as well as opportunities to serve a wider range of customers and enterprises.

Evaluative questions and items to consider when examining human capital plans and strategies include:

- **Strategic Direction: Has the board and management developed a strategic direction for human capital planning?** Strategic human capital planning focuses on the short- and long-term acquisition, development, and deployment of human resources to achieve the institution's mission and strategies. Effective strategic direction for human capital planning identifies the board's overall philosophy and vision for the kind of workforce needed. It should provide a coherent framework of human capital policies, programs, and practices to directly support the institution's strategic plan. A clear strategic direction will enable management to develop effective human capital strategies.
- **Workforce Assessment: Has the institution effectively studied its workforce and management and evaluated their strengths and weaknesses, as required by FCA Regulation [618.8440\(b\)\(7\)\(i\)](#)?** To develop effective strategies and actions and comply with the regulation, management must study and know its workforce and incorporate a thorough and accurate assessment into the human capital plan. This process generally starts with collecting and reviewing key documents (e.g., workforce demographics, workforce analysis, budget, skill gap analysis) and workforce data (e.g., turnover and retirement rates, labor market information). Institutions should also take an honest look at staff's skills and capabilities, giving consideration to whether the workforce assessment results are consistent with staff performance evaluations and institution results. In addition, most institutions should already be evaluating their workforce through the affirmative action program analysis, if applicable. This analysis, along with the information from other key documents as discussed above, should enable the institution to evaluate its current and future human capital needs to achieve its mission and aid in the development of succession programs. Examples of human capital needs include the size of the workforce, its placement across the institution, and the knowledge, skills, and abilities needed. Refer to the *Affirmative Action Program Plan* examination guidance for additional evaluative criteria.
- **Succession Programs: Did the human capital plan incorporate workforce and management succession programs?** FCA Regulation [618.8440\(b\)\(7\)\(ii\)](#) requires institutions to include a description of their workforce and management succession programs in the human capital plan. Refer to the *Succession Planning* examination guidance for additional evaluative criteria.
- **Strategies and Actions: Has the institution developed appropriate human capital strategies and taken actions to implement those strategies? Has sufficient focus been placed on identifying diversity and inclusion strategies and actions?** The strategic direction and workforce assessment discussed above will help institutions develop human capital strategies. These strategies will tend to be categorized around major human capital topics, such as talent management, leadership and succession, training and development, and performance and recognition. Once strategies are established, actions should be developed that outline how the strategies will be implemented. Actions should have enough specificity to ensure they will reasonably accomplish the intended strategies. Examiners should specifically evaluate whether each institution has made good faith efforts in developing strategies and actions to strive for diversity and inclusion within its workforce and management, as required by FCA Regulation [618.8440\(b\)\(7\)\(iii\)](#). Good faith efforts are

generally viewed as strategies and actions that institutions take that may not always result in the specific desired results, but over time lead to tangible improvements in workplace diversity and inclusion.

- **Board Reporting: Does the board receive sufficient reports on progress made in accomplishing human capital plan strategies and actions?** The reporting should be sufficient to inform the board of any significant problems, delays, or adjustments needed in implementing strategies and actions. Report content and frequency should be consistent with board policy or process requirements, and comply with FCA Regulation [618.8440\(c\)\(1\)](#). While the regulation requires reporting at least annually, the board should consider more frequent reporting as discussed in the *Strategic Direction and Business Planning* section of [The Director's Role](#). More ongoing reporting will enable the board to ensure accountability and formulate new strategies and actions, if necessary.

Note: Institutions may use other documents (e.g., affirmative action program, succession plans, workforce plan, recruitment plan, etc.) as part of meeting the human capital plan regulatory requirements. However, these documents must be approved by the board annually and be summarized in, and incorporated by reference into, the human capital plan. Also, it is important to remember the FCA business planning regulation does not require an institution to:

- Establish quotas.
- Disclose confidential or sensitive information in public documents.
- Hire persons who are not the best qualified for the position for which they are applying.
- Gather or record data on employee characteristics not currently legally gathered or recorded.
- Implement strategies or actions that extend beyond its labor market.
- Implement strategies or actions inconsistent with existing employment laws and rules.

Refer to the following documents for additional guidance and information:

- [Preamble to the 2012 Business Planning Regulation amendments](#)
- [Frequently Asked Questions on Business Planning for Diversity and Inclusion](#)
- [FCA Board Policy Statement 62 – Equal Employment Opportunity and Diversity](#)
- Title 41 CFR Parts [60-2](#), [60-300](#), and [60-741](#) – Affirmative Action Program Regulations
- [Department of Labor Sample Affirmative Action Program](#)

2. Succession Planning:

Evaluate the adequacy of succession planning for the chief executive officer (CEO) and other key positions.

Guidance:

Succession planning is a strategic approach to ensure the necessary talent and skills are available and essential knowledge and abilities are maintained for when employees in key positions leave. Succession planning strategies can involve both internal staff development and hiring from outside. Effective succession planning is critical to reduce the likelihood of operational disruptions due to extended vacancies in key positions and to ensure long-term success of an institution. The succession planning process involves the board, executive management, and all other employees who manage staff. The process can vary depending on an institution's needs and structure; however, the main objectives are to:

- Identify critical workforce positions, proactively develop a diverse pool of potential successors, and encourage a culture that supports knowledge transfer and employee development.
- Build human resource programs that attract and retain qualified individuals to the institution.
- Implement a framework that identifies the competency requirements of critical positions, evaluates potential candidates, and develops required competencies, skills, and qualifications through planned development initiatives.

Evaluative questions and items to consider when examining succession planning include:

- **Regulatory Compliance: Did the human capital plan incorporate a description of the institution's workforce and management succession programs as required by FCA Regulation [618.8440\(b\)\(7\)\(ii\)](#)?** Succession planning is critical to mission success and creates a process for recognizing, developing, and retaining a diverse talent pipeline to ensure leadership continuity. The institution should identify key positions needing succession, analyze gaps in the current pipeline, and develop succession programs to ensure a diverse pool of potential applicants to meet current and future needs.
- **Identifying Key Positions: Did the institution appropriately identify key positions in its succession programs?** A key position is one that would have a significant impact on the institution's ability to conduct normal business if it were vacant. Typical key positions are at the executive level, such as CEO, chief financial officer (CFO), chief credit officer (CCO), chief risk officer, and chief information officer. However, key positions are not limited to executive-level positions and may include managers or positions that require a particular expertise or institutional knowledge. The impact to the organization could be considered in terms of how the vacancy might affect safety and soundness, financial operations, organizational efficiency, or reputation risk.
- **Requirements for Key Positions: Did the institution adequately identify the competencies, skills, and qualifications required for key positions?** Succession planning should look at identifying and building the competencies, skills, and qualifications for current and future institutional needs. An inventory of the most important requirements can serve as a basis to evaluate an employee's current competencies, skills, and qualifications and focus training and development or recruitment efforts. For example, if an institution is planning for the succession of its CFO, it should define the competencies, skills, and qualifications required to fulfill that specific job. These might include financial and accounting knowledge, educational minimums or preferences, and professional certifications, along with relevant leadership experience and knowledge of the industry.
- **Successors for Key Positions: Has the institution identified potential successors for key positions?** Institutions should identify individuals with the potential to fill key positions. Management should consider building an inventory of employees' skills, experience, and career goals. This enables management to identify diverse individuals with relevant competencies and qualifications from multiple levels who are at varying stages in their careers. Institutions should use various tools to assess an employee's potential to help reduce biased selection practices and minimize subjectivity. Potential tools include performance reviews, behavioral-based interviews, and 360-degree feedback. The board has a fiduciary duty to work toward identification and mitigation of major business risks, including the loss of executive management. As such, the board should be directly involved in CEO succession planning.

- **Succession Management Strategies: Has the institution identified sufficient succession management strategies?** Succession strategies should look at methods to build the core competencies, skills, and qualifications for current and future needs. Institutions may choose from various human resource strategies, including developing internal talent pools, onboarding, and recruitment to address succession planning. It is important to incorporate strategies for training and development and transferring of institution knowledge within succession planning. Institutions may look to their internal staff or outside candidates. Looking externally can be beneficial in that it presents the opportunity to bring in new and diverse talent. Strategies could also include temporarily filling positions with contracted employees.
- **Review of Succession Programs: Are succession programs reviewed periodically for effectiveness and updated as needed?** Once developed, institutions should keep the succession program current. To ensure that succession planning efforts are successful, it is important to monitor workforce data, evaluate strategies, and adjust when necessary. This is especially important following organizational changes, changes in priorities, restructuring, retirements, promotions, and resignations.
- **Board Involvement: Was the board sufficiently involved in succession planning?** The board has a fiduciary responsibility to identify and mitigate major business risks, including the loss of executive management. The board should be directly involved in considering a CEO successor, and at a minimum should be informed on succession planning activities for key positions like the CFO, CCO, and other key officers. The board should also hold executive management accountable for succession planning, and receive periodic reporting consistent with board policy or process requirements.

3. Affirmative Action Program Plan:

Evaluate the adequacy of the affirmative action program (AAP) plan.

Guidance:

[Section 4.38](#) of the Farm Credit Act of 1971, as amended (the Act), requires each System institution with more than 20 employees to establish and maintain an affirmative action program (AAP) plan. Although System institutions are not government contractors, the AAP plan must apply the same affirmative action standards that are applied to contractors of the Federal government. FCA applies the substantive standards in the Department of Labor’s Office of Federal Contract Compliance Program’s regulations as criteria to evaluate an AAP plan for compliance with the Act. These regulations include:

- Title 41 Part [60-2](#) – Affirmative Action Programs (this section addresses women and minorities)
- Title 41 Part [60-300](#) – Affirmative Action and Nondiscrimination Obligations of Federal Contractors and Subcontractors Regarding Disabled Veterans, Recently Separated Veterans, Active Duty Wartime or Campaign Badge Veterans, and Armed Forces Service Medal Veterans
- Title 41 Part [60-741](#) – Affirmative Action and Nondiscrimination Obligations of Federal Contractors and Subcontractors Regarding Individuals with Disabilities

The AAP plan is a management tool designed to help ensure equal employment opportunity. Institutions should customize their AAP plans to reflect their organizational structure, policies, practices, programs, and data. This will help ensure all qualified applicants and employees are receiving an equal opportunity for recruitment, selection, advancement, and other terms and privileges associated with employment.

Section 4.38 was added to the Act by the Agricultural Credit Act of 1987. Since then, institutions have been subject to the substantive requirements in Title 41 Part 60-2 (which focuses on employing minorities and women) and its predecessors. The requirements in Title 41 Parts 60-300 and 60-741 became effective in 2014. In addition to adding a focus on veterans and individuals with disabilities, these newer regulations impose substantive requirements on institutions that are different from those in Part 60-2. Institutions must ensure that their AAP plans incorporate all applicable, substantive requirements. Institutions may choose to have one AAP plan integrating all the above regulations or separate plans for each part of the regulations.

Institutions may use their AAP plans to comply with the human capital plan requirements in FCA Regulation [618.8440\(b\)\(7\)\(i\)](#). However, if an institution uses its AAP plan in this manner, the AAP plan must contain the information specified in the regulation, be approved by the board annually, and be summarized in, and incorporated by reference into, the human capital plan.

Evaluative questions and items to consider when examining an AAP plan under Title 41 Part [60-2](#) (women and minorities) include:

- **Quantitative Analyses: Has the institution adequately completed the required quantitative analyses to appropriately evaluate workforce composition and compare it to the labor pool composition?** The institution's AAP plan must include the following quantitative analyses:
 - **Organizational Profile** - An overview of the staffing within an institution (possibly displayed in a chart or list) used to determine areas in the workforce where minorities or women are underrepresented or concentrated. [41 CFR 60-2.11]
 - **Job Group Analysis and Placement of Incumbents** - Job groups should be formed by combining job titles with similar duties and responsibilities, wages, and job opportunities. This is the first step in the institution comparing the representation of minorities and women in its workforce with the estimated availability of minorities and women qualified to be employed. The institution must state the percentage of minorities and women it employs in each job group. [41 CFR 60-2.12 and 60-2.13]
 - **Determining Availability** - The purpose of the availability determination is to establish a benchmark against which the demographic composition of the institution's workforce can be compared. The institution must use the most current and discrete statistical information available to determine the percentage of qualified minorities and women in a reasonable recruitment area and among those promotable, transferable, and trainable within the institution. Examples of this information include census data, data from local job service officers, and data from colleges or other training institutions. Management should use this information to determine whether barriers to equal employment opportunity exist within a job

group. The institution must not determine availability in a manner that has the effect of excluding women and minorities. [41 CFR 60-2.14]

- **Comparing Incumbency and Placement Goals** - Placement goals serve as objectives or targets reasonably attainable by means of applying every good faith effort to make all aspects of the entire AAP plan work. The institution must establish a placement goal if the percentage of minorities or women employed in a job group is less than would reasonably be expected based on the availability determination. The need for a placement goal does not constitute a finding or an admission of discrimination. The percentage annual placement goal must be at least equal to the availability figure derived for women or minorities, as appropriate, for that job group. Depending on the disparity, the institution could establish a single goal for all women and minorities or separate goals for each group. In establishing placement goals, the following key principles apply: quotas are expressly forbidden, employment decisions must be nondiscriminatory, and institutions are not required to hire an unqualified person. [41 CFR 60-2.15 and 60-2.16]
- **Designation of Responsibility: Was an appropriate individual designated to be accountable for implementing the AAP plan?** Depending on the size of the institution, this may or may not be the individual's sole responsibility. However, the individual must have the authority, resources, and support of (and access to) executive management to ensure effective implementation of the AAP plan. [41 CFR 60-2.17(a)]
- **Identification of Problem Areas: Has the institution performed an effective analysis of its employment process to determine whether and where impediments to equal employment opportunity exist?** Management must evaluate its workforce by organizational unit and job group, along with its personnel activity, to determine whether there are problems in minority or female utilization. In addition, the institution must evaluate selection, recruitment, referral, other personnel procedures, and the compensation system to determine whether there are disparities. This analysis provides the information needed to develop action-oriented programs. [41 CFR 60-2.17(b)]
- **Action-Oriented Programs: Has the institution developed and executed effective action-oriented programs to correct any problem areas identified and to attain goals and objectives?** For these action-oriented programs to be effective, the institution must ensure they consist of more than following the same procedures that have previously produced inadequate results. Institutions must demonstrate a good faith effort to remove identified barriers, expand employment opportunities, and produce measurable results. Examiners should evaluate this area by reviewing the contents of the program, the extent of adherence to the program, and the institution's good faith effort to make its AAP plan work. [41 CFR 60-2.17(c)]
- **Audit and Reporting System: Has the institution implemented an effective audit and reporting system to periodically monitor activity and report results to the board?** Institutions must develop and implement an auditing system that periodically measures effectiveness of the AAP. Additionally, institutions should monitor personnel activity to ensure the AAP plan is carried out. They should also regularly report results and program effectiveness to the board. [41 CFR 60-2.17(d)] In addition, the board should consider at least annual reporting as discussed in the *Strategic Direction and Business Planning* section of [The Director's Role](#). Reports should be sufficient to inform the board of any significant problems, delays, or adjustments needed in implementing strategies and actions. Report

content and frequency should be consistent with board policy or process requirements.

Evaluative questions and items to consider when examining an AAP plan under Title 41 Parts [60-300](#) (veterans) and [60-741](#) (individuals with disabilities) include:

- **Availability of the AAP Plan: Does the institution have an adequate process to ensure its AAP plan is made available to applicants and employees?** Each institution must make its AAP plan, absent the data metrics, available to any applicant or employee for inspection upon request. The institution must post at each establishment the location and hours during which the AAP plan may be obtained. [41 CFR 60-300.41 and 60-741.41]
- **Invitation to Self-Identify: Does the institution have an adequate process to ensure protected veterans and persons with disabilities are invited to self-identify?** The institution must invite job applicants, persons who have received job offers, and current employees to self-identify as protected veterans (defined by 41 CFR 60-300.2(q) to include disabled veterans, recently separated veterans, active duty wartime or campaign badge veterans, and Armed Forces service medal veterans) or individuals with disabilities. The institution may not compel an individual to self-identify and must keep the information confidential. [41 CFR 60-300.42 and 60-741.42]
- **Affirmative Action Policy Prohibition Against Discrimination: Does the institution adequately prohibit discrimination in employment?** The institution must not discriminate because of physical or mental disability or against protected veterans and must take affirmative action to employ and advance in employment qualified protected veterans and individuals with disabilities. [41 CFR 60-300.43 and 60-741.43]
- **Affirmative Action Program: Has the institution developed an AAP plan that contains, at a minimum (but does not need to be limited to), the following elements?**
 - **Policy Statement** –The AAP plan must contain an equal opportunity policy statement that must indicate the support of the top executive (such as the president or chief executive officer) for the AAP plan. The policy statement must include certain specific items, be posted on the institution’s bulletin boards, and be made available, accessible, and understandable to applicants and employees with disabilities. [41 CFR 60-300.44(a) and 60-741.44(a)]
 - **Review of Personnel Processes** – The institution must ensure that its personnel processes do not stereotype protected veterans and individuals with disabilities in a way that limits their access to the personnel processes and jobs for which they are qualified. The institution must:
 - Periodically review its personnel processes (e.g., hiring, promotion, training opportunities) to ensure that these requirements are met.
 - Describe its personnel processes review and any necessary modifications.
 - Design procedures that aid in implementing a review of this requirement. [41 CFR 60-300.44(b) and 60-741.44(b)]
 - **Physical and Mental Qualifications** – The institution must provide in its AAP plan, and must adhere to, a schedule for the periodic review of all physical and mental job qualification standards. This is to ensure that any screening out of qualified persons with disabilities and protected veterans is job-related and consistent with business necessity. Documenting this review will ensure the institution critically analyzes its

job requirements and proactively eliminates those that are not job-related. [41 CFR 60-300.44(c) and 60-741.44(c)]

- **Reasonable Accommodation Procedures** – The institution must ensure reasonable accommodations are provided to applicants and employees with disabilities and must take the initiative in approaching employees with known disabilities to begin the reasonable accommodation process. Developing and using written procedures for processing requests for reasonable accommodation is a sound business practice that may help the institution meet its reasonable accommodation obligations. Such procedures help ensure that applicants and employees are informed on how to request a reasonable accommodation and are aware of how requests will be processed by the institution. [Appendix B to Part 60-741](#) provides guidance to institutions that choose to develop written reasonable accommodation procedures. [41 CFR 60-300.44(d) and 60-741.44(d)]
- **Harassment** – The institution must develop and implement procedures to help ensure that its employees are not harassed because of their protected veteran status or disability. [41 CFR 60-300.44(e) and 60-741.44(e)]
- **External Dissemination of Policy, Outreach, and Positive Recruitment** – The institution must undertake appropriate outreach and positive recruitment activities that are reasonably designed to effectively recruit protected veterans and persons with disabilities. The scope of the institution’s efforts will depend on all of the circumstances and the extent to which existing employment practices are adequate. The regulations provide illustrative examples of outreach and recruitment activities. The institution must assess the effectiveness of these efforts annually. The institution must also document all activities it undertakes to comply with these requirements and must retain these documents for 3 years. [41 CFR 60-300.44(f) and 60-741.44(f)]
- **Internal Dissemination of Policy** – The institution must develop procedures to internally communicate its affirmative action policy. A strong outreach program will be ineffective without adequate internal support from leadership and other employees. To aid further employee cooperation and participation in the institution’s efforts, procedures must foster understanding, acceptance, and support, as well as encourage personnel to take the necessary actions to aid the institution in meeting this obligation. The institution must include the policy in its policy manual/employee handbook or otherwise make it available to all employees; other methods of dissemination are also encouraged. [41 CFR 60-300.44(g) and 60-741.44(g)]
- **Audit and Reporting System** – The institution must implement an effective audit and reporting system to periodically monitor activity and report results to the board. The institution must develop and implement an auditing system that periodically measures the effectiveness of its AAP plan. In addition, the board should consider at least annual reporting as discussed in the *Strategic Direction and Business Planning* section of [The Director’s Role](#). Reports should be sufficient to inform the board of any significant problems, delays, or adjustments needed in implementing strategies and actions. Report content and frequency should be consistent with board policy or process requirements. Where the AAP plan is found to be deficient, the institution must take action to bring the program into compliance. [41 CFR 60-300.44(h) and

60-741.44(h)]

- **Responsibility for Implementation** – The institution must assign responsibility for implementing the affirmative action activities to an official whose name should appear on all communications regarding the AAP plan. [41 CFR 60-300.44(i) and 60-741.44(i)]
- **Training** – The institution must train the personnel involved in the recruitment, screening, selection, promotion, disciplinary, and related processes to ensure the commitments in the AAP plan are implemented. [41 CFR 60-300.44(j) and 60-741.44(j)]
- **Data Collection Analysis** – The institution must document and retain for 3 years specified data on applicants and hires. [41 CFR 60-300.44(k) and 60-741.44(k)]
- **Hiring Benchmark/Utilization Goal: Does the institution have an appropriate hiring benchmark for protected veterans and utilization goal for hiring individuals with disabilities?** The benchmark and utilization goals are not rigid and inflexible quotas that must be met, nor are they to be considered either a ceiling or a floor for employing particular groups. Quotas are expressly forbidden.
 - **Hiring benchmark for protected veterans** – The institution must establish an annual benchmark for hiring protected veterans. The purpose of the benchmark is to create a quantifiable method by which the institution can measure its progress towards achieving equal employment opportunity for protected veterans. An institution must choose one of the two specified mechanisms for establishing its benchmark annually, document its benchmark as specified, and retain relevant documentation for 3 years. [41 CFR 60-300.45]
 - **Utilization goal for hiring individuals with disabilities** – The institution must establish a 7 percent utilization goal for individuals with disabilities. The utilization goal must be for each job in the institution’s workforce or, if it has fewer than 100 employees, for the institution’s entire workforce. The purpose of this goal is to establish a benchmark against which the institution measures the representation of individuals within its workforce. The institution must evaluate its utilization annually and develop and execute action-oriented programs to correct problem areas. [41 CFR 60-741.45]

The Department of Labor provides [Sample Affirmative Action Programs](#) that are available for illustrative purposes. These sample programs are resources that institutions may use, but do not represent the only way to comply with the requirements. Each institution’s AAP plan should be customized to reflect its organizational structure, policies, practices, programs, and data.

4. Audit:

Determine if the institution conducts an effective audit (scope, reporting, and followup) of human capital management issues.

Guidance:

The internal audit and review program is a key mechanism for ensuring human capital management processes are functioning effectively and in compliance with regulations and policies. The internal

auditor or other qualified, independent party should review the adequacy of human capital management to ensure compliance with applicable criteria. The audit risk assessment and scope should address human capital management topics, and audit frequency should be commensurate with the complexity of the institution's operations and risk profile. A reliable audit program provides the board reasonable assurance that human capital management is sound and that related reporting is complete and accurate.

Evaluative questions and items to consider when examining the audit and review function regarding human capital management include:

- **Audit Coverage: Is there periodic audit or review coverage of human capital management?** Audit or review coverage and frequency should be appropriate relative to risks, changes in the operating environment, regulatory requirements, and periodic testing needs. Coverage should also be consistent with the institution's risk assessment results and annual audit plan.
- **Scope and Depth: Are audit or review scope and depth sufficient to conclude on the adequacy and effectiveness of the institution's human resources policies, procedures, documentation, and systems?** The scope should cover key processes and controls within the area being audited or reviewed. The depth of work should be sufficient to determine if internal controls are functioning as intended and regulatory requirements are met. The scope and depth of coverage should be consistent with the approved audit or review plan and engagement contract (if applicable). If audit or review work deviated materially from the original planned scope, the board (or Audit Committee, if so delegated) should be notified of the reasons for the change. Specific items that should be considered in the audit or review scope include:
 - Hiring, orientation, and termination.
 - Compensation and benefits.
 - Job descriptions and performance evaluations.
 - Compliance with human resource related regulations.
 - Succession planning.
 - AAP plan (as discussed in the *Affirmative Action Program Plan* procedure guidance, institutions are required to have an internal auditing system that periodically measures the effectiveness of the AAP).
 - Fraud-related threats and vulnerabilities, as well as anti-fraud controls.
- **Reliability of Results: Did FCA identify any concerns with audit and review reliability?** Evaluate the reliability of internal audit or review work by comparing the results to FCA's examination results in this area. This comparison often includes FCA testing of transactions that were covered in the internal audit or review (transactions are often loans or loan applications, but may include other types of transactional activity, as well). In addition to the audit or review report, examiners should request and review the workpapers and hold discussions with the auditor to obtain a more thorough understanding of work completed. Often, auditors and reviewers will complete line sheets, flowcharts, control matrices, standard work programs, workpaper forms, or other relevant documents when conducting work. Workpapers should adequately document the work performed and support the final

report. In addition, any proforma work programs, workpapers, or other tools should be accurate and sufficiently thorough. If there are material weaknesses identified by examiners that are not identified by internal audits or reviews, examiners should assess the underlying reasons.

- **Reports: Do internal audit reports sufficiently communicate human capital management review results and recommendations, if applicable?** Examiners should consider the following when evaluating the audit or review report:
 - Is the report prepared in accordance with the institution’s guidelines?
 - Is an executive summary or overview included to provide the board with a general conclusion on audit or review results?
 - Is the report accurate, concise, supported, and timely in communicating the audit or review objectives, scope, results, conclusions, and recommendations?
 - Are conclusions and recommendations realistic and reasonable, with material and higher risk issues clearly identified and prioritized?
 - Are conclusions and recommendations supported by convincing evidence and persuasive arguments (condition, criteria, cause, and effect)?
 - Does the report conclude whether the institution adheres to policies, procedures, and applicable laws or regulations, and whether operating processes and internal controls are effective?
 - Does the report address potential vulnerabilities to fraud, if applicable?
- **Corrective Action: Are management responses to audit findings in this area reasonable, complete, and timely? Have corrective actions been effective?** Audits and reviews are only effective if corrective action is taken to remedy the weaknesses identified. As such, there should be a reasonable, complete, and timely management response to the audit or review report. In some cases, management commitments and agreements or any areas of disagreement are documented in the report or in a separate memo or tracking system. If corrective actions are not resolving the issues or concerns (based on repetitive audit findings, FCA findings, etc.), examiners should further investigate the reasons. For example, this could indicate the audit or review did not sufficiently identify the underlying causes or materiality of weaknesses, sufficient resources are not being directed toward corrective actions, or weaknesses exist in the institution’s corrective action process, including board oversight of the process.

Examination Procedures and Guidance

Performance Management

1. Job Descriptions:

Evaluate job descriptions to ensure authority, responsibility, and required technical skills are clearly defined and maintained.

Guidance:

Job descriptions are documents that help identify each job's purpose, where that job fits into the organizational structure, and the job's primary accountabilities, responsibilities, and tasks. They help employees understand their roles, and provide a basis for outlining performance expectations, job training, and performance evaluations. The process of creating job descriptions helps management determine how critical each job is, how the job relates to others, and the characteristics needed by a new employee filling the role. They can also help in establishing compensation programs and levels.

Evaluative questions and items to consider when examining job descriptions include:

- ***Processes and Controls: Are there sufficient processes and controls in place pertaining to job descriptions?*** The board should provide general expectations and guidance to management on developing and maintaining job descriptions. The board is also specifically responsible for the CEO and, if applicable, chief audit executive (CAE) job descriptions. Management should develop procedures and processes for reviewing, approving, implementing, changing, and maintaining job descriptions.
- ***Knowledge, Skills, and Abilities (KSAs): Do job descriptions sufficiently outline the KSAs required for each position?*** Job descriptions should provide details about the technical and educational requirements that may be critical or desired in a position. The work environment may also be described to the extent it may affect job duty performance (e.g., travel requirements, ability to work effectively on a team). There should be a direct link between the KSAs in the job description and the performance standards used in the performance evaluation process.
- ***Roles and Responsibilities: Do job descriptions adequately reflect the roles and responsibilities of each position?*** Job descriptions should typically identify the relationships, roles, and responsibilities within the organization, including supervisory, subordinate, and other working relationships. Enough detail should be provided so job duties are clear, which may include the percentage of time spent performing each job function. Job descriptions may also include a salary grade or range. These items help employees better understand how their duties fit into the overall organizational structure.
- ***Security Roles: Do job descriptions sufficiently document security roles and responsibilities?*** Employees should know, understand, and be held accountable for fulfilling their security responsibilities. Job descriptions should specify any additional security responsibilities beyond the institution's general policies. In addition, job descriptions for security personnel should describe the systems and processes they will protect and the control processes for which they are responsible. For additional information, refer to the following booklets in the Federal Financial Institutions Examination Council's IT Examination Handbook: [Information Security](#) and [Management](#).
- ***Maintenance: Are job descriptions up to date with the current organization structure and duty assignments?*** Job descriptions should be revised as needed to stay consistent with current duties. Changes in management structure or other reorganization could result in changes to responsibilities and authorities that should be reflected in updated job descriptions.

2. Performance Standards & Evaluations:

Determine if performance standards and evaluations are effectively used to manage staff performance and accomplish business goals.

Guidance:

Management is responsible for defining the organization's functions and responsibilities and allocating them to individual units and staff. Performance standards and evaluations are tools that help ensure these functions and responsibilities are being performed effectively. Performance standards and evaluations provide a way to hold employees accountable for expected results while also providing input for the organizational planning process.

Evaluative questions and items to consider when examining performance standards and evaluation processes include:

- **Performance Standards: Does the institution have effective processes and controls for using performance standards?** Institutions should have procedures or processes for developing and using performance standards as part of the human resource management system. This should include ensuring performance standards are consistent with job position requirements and the institution's overall goals and objectives. For example, if a goal is to improve credit quality and credit administration, loan officer performance standards should be consistent with that goal and not strictly based on originating new loans. Ideally, processes and controls should ensure performance standards are objective, measurable, realistic, formally documented, and agreed to by both the supervisor and employee.
- **Performance Evaluations: Does the performance evaluation process include appropriate elements to help ensure effective employee performance?** Institutions should have procedures or processes that govern the employee performance evaluation process. An effective process would typically include a face-to-face appraisal session at least annually between the supervisor and employee, a documented performance evaluation, and a second-level review of the evaluation. The appraisal session and evaluation should focus on agreed-upon goals and performance standards and the extent to which they were met. Management should explore reasons for deviation from performance standards to identify causes and potential corrective actions. Management should document weak performance and resulting corrective action plans to improve employee performance and support termination decisions, when necessary; however, the general focus of the performance evaluation process should be constructive. Individual performance evaluations should reflect established processes and be a tool for accomplishing the desired performance results. Second-level review of evaluations by a higher-level supervisor or someone from human resources is a sound practice to help ensure evaluations are appropriate and comply with institution policies and procedures. *Note: Individual performance evaluations are confidential and examiners must ensure that specific information is safeguarded.*
- **Board Responsibilities – CEO: Does the board effectively administer performance standards and evaluation processes for the CEO?** The board is responsible for establishing CEO performance standards and evaluating the CEO's performance. These processes should help the board ensure the CEO and management are carrying out the institution's mission, goals, and plans. [The Director's Role](#), pages 28-30, provides additional guidance for board consideration.

- **Board Responsibilities – Chief Audit Executive (CAE): Does the board effectively administer performance standards and evaluation processes for the CAE?** The board is responsible for the CAE’s performance standards and evaluation. While management can assist with administrative aspects of this process, the board needs to retain responsibility and control to help ensure audit and review staff independence and objectivity are not susceptible to undue management influence.
- **Using Performance Standards and Evaluations: Are performance standards and evaluations effectively used in organizational planning and human resource management decisions?** Performance standards and evaluations can provide valuable input into organizational planning and human resource management decisions, such as:
 - Evaluating organizational structure and how functions and responsibilities are aligned.
 - Identifying employee potential as part of the succession planning and internal staffing and development processes.
 - Providing feedback and recognition to stimulate performance and improve employee morale.
 - Identifying weaknesses to be addressed by training, reassignment, or termination.
 - Providing input to managers in determining salary programs and compensation increases.
 - Evaluating the effectiveness of human resource management practices in achieving business objectives.

3. Training & Development:

Review the adequacy of training and development programs.

Guidance:

The goal of training and development programs is to help employees develop and maintain the skills needed to perform their jobs effectively. These programs are also important for helping employees acquire skills for advancement into other positions. Management should have processes in place to identify training needs, such as needs assessments, individual development planning, and an effective performance evaluation process. Management should also consider using a combination of training types, such as on-the-job developmental assignments, e-learning, in-house training programs, or formal external courses. Regardless of the type, management should ensure the training provided is effective by obtaining feedback from training participants. While training and development activities are incorporated throughout the Examination Manual, this procedure focuses on the overall administration of these programs.

Evaluative questions and items to consider when examining training and development programs include:

- **Processes and Controls: Are sufficient processes and controls in place for administering effective training and development programs?** The board should provide general

expectations and guidance to management on administering and maintaining training and development programs. Management should develop procedures and processes for reviewing, approving, implementing, changing, and maintaining training programs consistent with the board's strategic goals related to human capital management. Management should track the performance of training and development programs in meeting those goals. Processes should also include a mechanism for obtaining trainee reactions and evaluations on the content and usefulness of training experiences.

- ***Pertinent to Job Duties: Is training received by employees pertinent to their jobs?*** Effective training conveys relevant and timely information that informs participants and develops skills and behaviors that can be transferred back to the workplace. Training and development programs should involve using development plans to identify training that will best develop and improve staff skills. Employees should have the opportunity and ability to apply the training knowledge to their job situation. The effectiveness and results of the training should then be determined through on-the-job experience and a performance evaluation.
- ***Improve Job Performance: Do training and development programs sufficiently address job performance enhancements and areas of deficiencies?*** Training can enhance job performance and address identified deficiencies. Management should use tools and processes such as performance evaluations and audit results to identify performance deficiencies that may be corrected by training. This may involve employee-specific needs or items that affect a group of staff. As discussed in the [FCA Informational Memorandum on Confronting the Increased Risk Environment](#) dated July 2, 2009, institutions may need to focus training on developing the skills needed in an increased risk environment. Regulatory changes are another area that could contribute to the need for timely staff training to ensure compliance with new or revised requirements.
- ***Fill Future Needs: Do training and development programs fulfill the development needs of employees as identified in the human resources plan or forecast?*** Management should use the human resource plan or forecast to determine the number of employees and skill level needed to meet the organization's goals. The training needs assessment process should identify the gap between current and needed skills and should be used to determine the training and advancement potential of employees. Management should ensure the human resource plan also sufficiently addresses training needs. Training and development programs should then implement this plan by ensuring employees receive the training and development to fill future organizational needs. By developing and promoting existing employees, the institution may lessen the need to fill future positions through outside recruitment.

Examination Procedures and Guidance

Compensation & Benefits

1. Compensation Committee:

Evaluate the structure, operations, and effectiveness of the Compensation Committee in overseeing compensation programs.

Guidance:

2. Board Compensation:

Evaluate board compensation practices and levels for appropriateness and compliance with regulatory guidance.

Guidance:

3. Employee Compensation:

Evaluate employee compensation practices and levels for appropriateness and compliance with regulatory guidance.

Guidance:

4. Benefit & Retirement Programs:

Evaluate the administration and reasonableness of employee benefit programs, including retirement plans.

Guidance: