



BOARD ACTION MEMORANDUM

TO: NCUA Board **DATE:** July 29, 2010
FROM: Chief Financial Officer **SUBJECT:** FY 2010 Mid-Session Budget Review

ACTION REQUESTED: Board approval of the reprogrammed 2010 Operating Budget as documented in the Board Action Memorandum and attachments.

DATE ACTION REQUESTED: July 29, 2010

OTHER OFFICES CONSULTED: All Office Directors

VIEWS OF OTHER OFFICES CONSULTED: Budget analyses provided by all office directors are summarized in this Board Action Memorandum.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes

BUDGET IMPACT: The recommended actions will result in a net decrease of \$2 million to the FY 2010 Board approved Operating Budget.

RESPONSIBLE STAFF MEMBERS: Chief Financial Officer Mary Ann Woodson

BACKGROUND: A mid-session budget review involving the participation of all NCUA offices was conducted. The purpose of this review is to assess the agency's budget at mid-year, to project spending through the end of the fiscal year, and to request Board approval of any proposed items that were not included in the original 2010 budget. Historically, the mid-session review has resulted in a reallocation of original funding for current programs as well as for new initiatives.

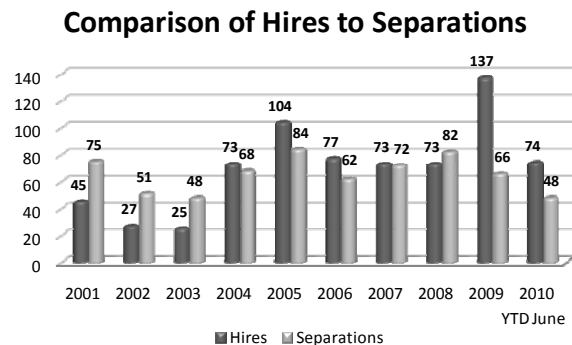
The 2010 budget implemented various initiatives, including the Annual Examination Program and the Office of Consumer Protection, that deployed significant staffing resources. Mid-year budget resource utilization is trending higher than past years. However, projections of spending indicate that \$2 million in funds will be unused at year-end, supporting an Operating Budget reduction of \$2 million. Unused funds are determined by Operating Fund cash in excess of a one (1) month operating reserve.

NCUA's policy is to return excess funds to Federal Credit Unions through a reduction in the Operating Fee Assessment in the following year. Based on current projections, 2011 Operating Fee collections will be reduced by approximately \$2 million.

SUMMARY: Total budgeted operating costs for the 12-month period ending December 31, 2010, are reduced by \$2 million for a total budget of **\$198,923,512**. Among the regional and central offices, there are increases, decreases, new requests, and revised estimates. There is also an increase of 17.00 full-time equivalents (FTE) resulting in the total staffing level of **1,128.85**.

| Operating Budget | Board | | | Revised Budget Needs |
|-------------------------------|-----------------------|-----------------------|---------------------|-----------------------|
| | Approved Budget | Reductions | Increases | |
| Employee Pay & Benefits | \$ 146,089,301 | \$ (7,128,181) | \$ 507,000 | \$ 139,468,120 |
| Travel | 23,177,347 | (327,749) | 1,057,014 | 23,906,612 |
| Rent/Communications/Utilities | 4,696,476 | (590,000) | 239,377 | 4,345,853 |
| Administrative | 11,706,333 | (40,000) | 170,825 | 11,837,158 |
| Contracted Services | 15,254,055 | (1,133,683) | 5,245,397 | 19,365,769 |
| Total | \$ 200,923,512 | \$ (9,219,613) | \$ 7,219,613 | \$ 198,923,512 |

Actual spending for the first six months of the year was \$91,631,201, resulting in an under budget variance of 8.0 percent. Spending is typically at least seven (7) percent higher during the second half of the year. Also, there is an increase in hiring primarily related to the Annual Examination Program, which is integral to the agency's safety and soundness mission. The 2009 and 2010 budget added a total of 131 positions. As seen in the bar chart, increased hiring efforts have resulted in a total of 211 hires from 2009 through June 2010. Adjusting for attrition, net hires were 97. With pay and benefits comprising 73 percent of all spending, vacancies are the driver of unused budgetary funds. Projections of staffing levels at year-end, with consideration of current hiring initiatives, support an Operating Budget reduction of \$2 million.



In an environment where additional budgetary resources may be needed for unforeseen events, a rigorous budget review was performed to ensure adequate funding remains available for core program needs as well as to identify savings, efficiencies, and reductions in other budget items.

Attachments to this document provide the following information:

- Attachment 1 shows a breakdown of budget requests by office;
- Attachment 2 shows an increase in total staffing by 17.00 FTE.

The following budget reductions represent savings, revised estimates, and/or program changes. These \$9.2 million in reductions are used to offset agency mid-session needs, which are discussed separately, and to reduce the 2011 Operating Fee collections by approximately \$2,000,000.

Employee Pay and Benefits (\$7,128,000)

- 1) Projections in the effect of vacancies on agency-wide staffing provided **\$7,128,000** in reductions. While offices and regions strive to be 100 percent staffed, turnover in staffing results in unused funding.

Travel (\$328,000)

- 2) The Office of Human Resources, Division of Training and Development, reduced its travel budget by **\$276,000** by examining and prioritizing its developmental programs. The remaining reduction of **\$52,000** was provided by Region II (Capital) to adjust its overall travel needs after assuming California's safety and soundness programs at the start of 2010.

Rent, Communications, and Utilities (\$590,000)

- 3) The Office of the Chief Information Officer provided a decrease of **\$450,000** from its original \$1,846,000 telephone/data communication budget due savings from implementing the new government-wide service provider.
- 4) The Office of Human Resources, Division of Training and Development, provided a decrease of **\$100,000** in its \$279,000 rental budget due to re-estimating the costs associated with planned conferences as well as reducing budgets where costs incurred were less than originally planned.
- 5) The remaining decrease of **\$40,000** in Rent, Communication, and Utilities relates to lower anticipated energy costs and maintenance costs on property owned and leased by the agency.

Administrative (\$40,000)

- 6) The Office of the Chief Information Officer provided a decrease of **\$40,000** in its \$1,141,000 software licenses budget due to savings on software contracts.

Contracted Services (\$1,134,000)

- 7) Region II (Capital) reduced its \$700,000 budget for the On-the-Job Trainers Program by **\$555,000**. The remaining consulting budget of \$145,000 is requested for quality control reviews.

- 8) The Office of Human Resources examined and prioritized its consulting needs to provide a decrease of **\$459,000** in its \$1.6 million budget in order to provide for other needs as described in item 19(c), below.
- 9) The Office of the Chief Information Officer provided a decrease of **\$100,000** to its \$4.4 million consultant budget due to savings recognized in negotiating annual contracts.
- 10) The remaining decrease of **\$20,000** in Contracted Services is due to unrequired needs from various offices.

The following budget increases, submitted by the central and regional offices, were analyzed for reasonableness and vetted with executive management to ensure that such requests were supportive of core programs and agency goals. The increases include revised estimates and justified requests not included or foreseen in the original budget. These increases require no additional funding and are completely offset by the reductions discussed above.

New Initiatives (\$3,300,000)

- 11) The Office of Public and Congressional Affairs requests **\$1,700,000** to implement a consumer education campaign featuring a nationally recognized spokesperson on financial matters. This NCUA initiative will promote the benefits of NCUA deposit insurance.
- 12) The Office of the Chief Financial Officer requests **\$725,000** to engage consultants to assist in strengthening internal controls and financial reporting processes as well as provide specialized training to staff. This initiative is in response to weaknesses reported by independent auditors.
- 13) The Office of Examination and Insurance requests **\$650,000** for operational reviews; \$350,000 for the examinations and supervision programs, \$150,000 for the overhead transfer rate process, and \$150,000 for the insurance loss reserve model. The purpose of the operational reviews is to assess the strength of current processes and to refine the processes, as necessary.
- 14) The Office of the Chief Financial Officer, Division of Procurement and Facilities Management, requests **\$225,000** to acquire temporary office space in the Alexandria area. Due to planned growth of central office personnel, especially related to the new Office of Consumer Protection, office space is temporarily needed to relocate certain offices while office space is being renovated to accommodate them in the King Street Station building.

Revised Estimates with Current Programs

15) Pay and Benefits (\$507,000)

- a) The central offices and the Asset Management and Assistance Center (AMAC) request **\$477,000** to add 17.00 FTE. This amount represents partial year funding; 2011 full implementation funding is \$1,543,000.
 - i) AMAC requests 11.00 FTE, of which 9.00 FTE will be positions “not to exceed” 4 years.
 - ii) The Office of Human Resources requests funding for 4.00 FTE entry-level HR Specialists. These positions will help provide career path opportunities and assist with long-term succession planning.
 - iii) The Office of Public and Congressional Affairs and the Office of the Chief Information Officer each request 1.00 FTE to address increased administrative burdens.
- b) To remaining request of **\$30,000** represents employee benefit adjustments.

16) Travel (\$1,057,000)

- a) The Office of Human Resources, Division of Training and Development requests **\$607,000** to increase its \$2.6 million hotel lodging budget. The increase is primarily driven by lodging related to new examiner training.
- b) Regional travel is increased by **\$435,000** with requests from Region I (Albany) of \$50,000, Region III (Atlanta) of \$163,000, and Region V (Tempe) of \$222,000. The travel requests augment their combined \$8.8 million travel budget and directly support examiner activities.
- c) AMAC requests **\$15,000** to augment its \$186,000 travel budget due to increased staff and workload.

17) Rent, Communication and Utilities (\$14,000)

- a) Region II (Capital) requests **\$14,000** to increase its \$26,000 telephone/data communication budget. Additional communication costs are incurred due to the reallocation of California activities to Region II.

18) Administrative (\$171,000)

- a) Recruitment requests total **\$117,000** and primarily relate the web portal tools and application processing used by the Office of Human Resources.
- b) Supply requests total **\$35,000** with a \$20,000 request for AMAC to support its increased asset management activities and \$15,000 for the Office of Human Resources to support training activities.
- c) Subscriptions requests are **\$19,000** and primarily related to economic research subscriptions for the Office of the Chief Economist.

19) Contracted Services (\$2,171,000)

- a) The Office of the Inspector General requests **\$1,034,000**. Of this amount, \$438,000 relates to additional costs to the agency’s financial audit budget, for a total budget of \$1.2 million. The additional costs are related to completing the 2008 and 2009 audits and to fund the 2010 audit for the Corporate Stabilization Fund. Additionally, \$596,000 is requested for increased Material Loss Reviews,

for a total budget of \$1.4 million. By statute, the Material Loss Reviews must be conducted when a credit union fails with losses in excess of \$25 million and 10 percent of its assets, §216(j) of the Federal Credit Union Act as amended.

- b) The Office of the Chief Information Officer requests **\$450,000** for its \$4.4 million consulting budget. The increase is primarily to engage programmers for the agency's internally developed data call software. Software projects include enhanced reporting, such as a dashboard, to facilitate review and analysis of credit union data. This request also includes funding to update the Corporate Credit Union data call software to the web environment.
- c) The Office of Human Resources requests **\$410,000** to engage consultants to support hiring and administrative activities, including providing support to the agency's partnership with the National Treasury Employees Union. An additional **\$100,000** is requested by their Division of Training and Development to study alternatives for increasing the effectiveness of training programs.
- d) The Office of Human Resources, the Office of Examination and Insurance, and other offices request a total of **\$167,000** to create and deliver internal training on topics including member business lending, troubled debt restructuring, and merger accounting.
- e) The Office of the Executive Director, Equal Opportunity Programs, requests **\$10,000** to engage a specialist to calculate and analyze mandatory statistical performance measures of staffing and hiring activities.

RECOMMENDATION

It is recommended that the NCUA Board approve the following items:

1. The reprogramming of the fiscal year 2010 Operating Budget with a net decrease of \$2 million resulting in a budget of \$198,923,512, as presented in Attachment 1.
2. The increasing of total full-time equivalent (FTE) staffing by 17.00 FTE for the fiscal year 2010 to result in an authorized level of 1,128.85, as presented in Attachment 2.

Chief Financial Officer

Attachments

Attachment 1
Mid-Session 2010

OPERATING BUDGET

| | Original Budget | Mid-Session | | | Revised Budget | % Change |
|---|--------------------|------------------|--------------------|--------------------|--------------------|---------------|
| | | Increases | Decreases | Net Change | | |
| 1 Office of the Board | 2,554,683 | 0 | 0 | 0 | 2,554,683 | 0.00% |
| 2 Office of the Executive Director | 2,620,737 | 120,000 | (10,000) | 110,000 | 2,730,737 | 4.20% |
| 3 Office of Capital Markets | 1,407,389 | 10,000 | (120,000) | (110,000) | 1,297,389 | -7.82% |
| 4 Office of the Chief Economist | 486,685 | 17,125 | 0 | 17,125 | 503,810 | 100.00% |
| 5 Office of Consumer Protection | 1,500,000 | 0 | 0 | 0 | 1,500,000 | 0.00% |
| 6 Office of Corporate Credit Unions | 7,804,338 | 0 | (10,000) | (10,000) | 7,794,338 | -0.13% |
| 7 Office of the Chief Financial Officer | 17,268,294 | 1,367,700 | (6,438,181) | (5,070,481) | 12,197,813 | -29.36% |
| 8 Office of the Chief Information Officer | 13,572,429 | 450,000 | (590,000) | (140,000) | 13,432,429 | -1.03% |
| 9 Office of Examination and Insurance | 5,838,983 | 720,000 | 0 | 720,000 | 6,558,983 | 12.33% |
| 10 Office of the Inspector General | 3,225,816 | 1,034,257 | 0 | 1,034,257 | 4,260,073 | 32.06% |
| 11 Office of Small Credit Union Initiatives | 5,215,503 | 0 | 0 | 0 | 5,215,503 | 0.00% |
| 12 Office of General Counsel | 5,318,773 | 0 | 0 | 0 | 5,318,773 | 0.00% |
| 13 Office of Public and Congressional Affairs | 961,408 | 1,700,000 | 0 | 1,700,000 | 2,661,408 | 176.82% |
| 14 Office of Human Resources | 10,555,593 | 1,316,154 | (834,683) | 481,471 | 11,037,064 | 4.56% |
| 15 Region I (Albany) | 21,775,085 | 60,000 | 0 | 60,000 | 21,835,085 | 0.28% |
| 16 Region II (Capital) | 34,565,009 | 4,377 | (1,196,749) | (1,192,372) | 33,372,637 | -3.45% |
| 17 Region III (Atlanta) | 23,116,184 | 163,000 | 0 | 163,000 | 23,279,184 | 0.71% |
| 18 Region IV (Austin) | 23,716,725 | 0 | 0 | 0 | 23,716,725 | 0.00% |
| 19 Region V (Tempe) | 16,013,598 | 222,000 | (20,000) | 202,000 | 16,215,598 | 1.26% |
| 20 Asset Management and Assistance Center | 3,406,280 | 35,000 | 0 | 35,000 | 3,441,280 | 1.03% |
| Total | 200,923,512 | 7,219,613 | (9,219,613) | (2,000,000) | 198,923,512 | -1.00% |
| | | 3.59% | -4.59% | -1.00% | | |

In establishing budgets at the beginning of 2010, program initiatives, such as the Annual Examination Program, authorized under the FY 2010/2011 Budget resulted in reallocations of budgetary resources among the above offices.

The majority of the reduction in Employee Pay and Benefits due to vacancies, Item 1 of the Board Action Memorandum, is carried as undistributed in the Office of the Chief Financial Officer.

Attachment 2
Mid-Session 2010

AUTHORIZED FULL-TIME EQUIVALENT (FTE)

| <i>by Office</i> | 2010 | Change | Revised |
|--|-----------------|---------------|-----------------|
| Office of the Board | 12.00 | 0.00 | 12.00 |
| Office of the Executive Director | 10.00 | 0.00 | 10.00 |
| Office of Capital Markets | 6.50 | 0.00 | 6.50 |
| Office of the Chief Economist | 3.00 | 0.00 | 3.00 |
| Office of Consumer Protection | 8.00 | 0.00 | 8.00 |
| Office of Corporate Credit Unions | 37.00 | 0.00 | 37.00 |
| Office of the Chief Financial Officer | 31.00 | 0.00 | 31.00 |
| Office of the Chief Information Officer | 32.00 | 1.00 | 33.00 |
| Office of Examination and Insurance | 29.40 | 0.00 | 29.40 |
| Office of Inspector General | 9.00 | 0.00 | 9.00 |
| Office of Small Credit Union Initiatives | 27.00 | 0.00 | 27.00 |
| Office of General Counsel | 26.20 | 0.00 | 26.20 |
| Office of Public and Congressional Affairs | 4.00 | 1.00 | 5.00 |
| Office of Human Resources | 36.00 | 4.00 | 40.00 |
| Region I - Albany | 153.75 | 0.00 | 153.75 |
| Region II - Capital | 231.10 | 0.00 | 231.10 |
| Region III - Atlanta | 160.90 | 0.00 | 160.90 |
| Region IV - Austin | 167.50 | 0.00 | 167.50 |
| Region V - Tempe | 103.00 | 0.00 | 103.00 |
| Asset Management & Assistance Center | 21.00 | 11.00 | 32.00 |
| Subtotal Operating Fund | 1,108.35 | 17.00 | 1,125.35 |
| Central Liquidity Facility | 3.50 | - | 3.50 |
| Total NCUA | 1,111.85 | 17.00 | 1,128.85 |