

Board of Governors of the Federal Reserve System

The Board Economics Divisions Can Enhance Some of Their Planning Processes for Economic Analysis



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection



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Executive Summary, 2021-MO-B-001, February 24, 2021

The Board Economics Divisions Can Enhance Some of Their Planning Processes for Economic Analysis

Findings

The Board of Governors of the Federal Reserve System’s four economics divisions—the Divisions of Research and Statistics, Monetary Affairs, International Finance, and Financial Stability—produce analysis and research to support the Board’s mission. In defining the scope and approach for our review, we categorized the economics divisions’ analysis and research activities into three types: *recurring economic analysis*, *nonrecurring economic analysis*, and *independent research*. The scope of this evaluation focused on the planning processes and supporting practices for recurring and nonrecurring economic analysis, which we refer to jointly as *economic analysis*. Independent research was outside our scope.

Economic analysis serves as the basis for formulating and implementing monetary, regulatory, and supervisory policy. The economics divisions use a variety of processes and supporting practices to plan such analysis. We noted that these planning processes vary by division and that certain planning practices align with common planning practices used by our benchmark organizations and other central banks or international banking organizations.

We found that the economics divisions can enhance some of their planning processes for their economic analysis activities by considering additional practices to improve transparency, communication, and monitoring. In addition, the economics divisions can benefit from developing a more structured approach to sharing processes and supporting practices with each other, as well as considering the value of an external evaluation of certain activities to support continuous improvement efforts.

Recommendations

Our report contains recommendations designed to improve some of the economics divisions’ planning processes. We recommend that the divisions consider additional practices to enhance the transparency of certain division plans and priorities for economic analysis, gather and communicate governor feedback on certain economic analysis outputs, and gauge time allocation among activity types. We also recommend that the economics divisions consider adopting additional methods to continuously improve their planning efforts. In response to our draft report, the Board concurs with our recommendations and outlines actions that will be taken to address them. We will follow up to ensure that the recommendations are fully addressed.

Purpose

Given the importance of economic analysis performed by the four economics divisions in support of the Board’s mission, we conducted an evaluation of certain planning activities. Our evaluation assessed the economics divisions’ processes to plan certain research activities and identified opportunities to enhance the effectiveness of those processes. Specifically, our work focused on opportunities to enhance certain planning processes for economic analysis. Our evaluation did not assess how management factors unexpected events or significant changes to the economy into planning processes, nor did it assess the quantity, quality, relevance, or utility of the divisions’ economic analysis and research.

Background

The Board conducts economic analysis and research to support the mission of the Federal Reserve System: to foster the stability, integrity, and efficiency of the nation’s monetary, financial, and payment systems to promote optimal economic performance. The Board’s four economics divisions conduct economic analysis and research that support the Board’s pursuit of the monetary policy goals established by Congress: maximum employment, stable prices, and moderate long-term interest rates. The economics divisions perform economic analysis that supports the Board’s and the Federal Open Market Committee’s policymaking activities. The economics divisions have planning processes that help to conduct and communicate the results of such economic analysis.



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Recommendations, 2021-MO-B-001, February 24, 2021

The Board Economics Divisions Can Enhance Some of Their Planning Processes for Economic Analysis

Finding 1: The Economics Divisions Can Make Certain Plans and Priorities for Economic Analysis More Transparent to Board Governors

Number	Recommendation	Responsible office
1	Consider and implement new approaches to more consistently communicate division plans and priorities for economic analysis with Board governors.	Economics divisions

Finding 2: The Economics Divisions Can Improve Processes to Gather and Communicate Governor Feedback on Nonrecurring Economic Analysis Outputs

Number	Recommendation	Responsible office
2	Consider and implement new approaches to gathering governor feedback on their nonrecurring economic analysis outputs and communicating that feedback to staff. As part of this effort, consider clarifying the roles and responsibilities of special advisors with respect to obtaining and communicating governor feedback, as appropriate.	Economics divisions

Finding 3: The Economics Divisions Can Better Communicate Certain Plans and Priorities for Economic Analysis Within and Across Divisions

Number	Recommendation	Responsible office
3	Consider and adopt additional methods to communicate the economics divisions' plans and priorities for economic analysis to staff within and across the economics divisions.	Economics divisions

Finding 4: Certain Economics Divisions Can Better Gauge Economists' Time Allocation Among Activity Types

Number	Recommendation	Responsible office
4	Consider and adopt methods to gauge economists' time spent among activity types at the division level.	Division of Research and Statistics, Division of Monetary Affairs, and Division of Financial Stability

Finding 5: The Economics Divisions Can Use Additional Methods to Continuously Improve Their Planning Processes for Economic Analysis

Number	Recommendation	Responsible office
5	Develop a more structured approach for sharing planning processes and supporting practices among the economics divisions to identify opportunities to enhance planning efforts.	Economics divisions
6	Consider initiating an external evaluation of certain economic analysis planning processes and supporting practices.	Economics divisions

Note: The economics divisions are the Divisions of Research and Statistics, Monetary Affairs, International Finance, and Financial Stability.




Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

MEMORANDUM

DATE: February 24, 2021

TO: Distribution List

FROM: Michael VanHuysen 
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2021-MO-B-001: *The Board Economics Divisions Can Enhance Some of Their Planning Processes for Economic Analysis*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the Board of Governors of the Federal Reserve System economics divisions' processes to plan certain research activities and to identify opportunities to enhance the effectiveness of those processes, including through improved coordination and communication. Specifically, our work focused on opportunities to enhance certain planning processes for economic analysis.

We provided you with a draft of our report for your review and comment. In your response, you concur with our recommendations and outline actions that will be taken to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation we received from the Board during our evaluation. Please contact me if you would like to discuss this report or any related issues.

cc: Ricardo A. Aguilera
Cheryl Patterson

Distribution:

Stacey Tevlin, Director, Division of Research and Statistics
Trevor Reeve, Director, Division of Monetary Affairs
Beth Anne Wilson, Director, Division of International Finance
Andreas Lehnert, Director, Division of Financial Stability



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Introduction

Objective

The Board of Governors of the Federal Reserve System’s four economics divisions—the Divisions of Research and Statistics, Monetary Affairs, International Finance, and Financial Stability—produce economic analysis and research to support the Board’s mission.¹ The objective of this evaluation was to assess the economics divisions’ processes to plan certain research activities and to identify opportunities to enhance the effectiveness of those processes, including through improved coordination and communication. To achieve our objective, we interviewed Board governors and officials, section chiefs, and principal economists in the economics divisions. We also reviewed relevant reports and guidance, including independent external evaluations of the economic analysis and research activities of other central banks and international banking organizations, internal control guidance, and federal performance management guidance. In addition, we benchmarked with three central banks, two international economic organizations, and a federal government statistical organization to identify common planning practices. See appendix A for additional details on our scope and methodology.

Categorizing Activities Performed by the Economics Divisions

To assist in establishing the scope of our evaluation, we discussed with the economics divisions how best to categorize the activities they perform in support of the Board’s mission. These discussions revealed that the terminology used to describe the types of economic analysis and research performed by the economics divisions may vary among division staff and internal stakeholders. For example, the term *research* has a range of potential meanings. For some, research can include longer-term projects that inform internal discussions. For others, this term denotes a project independently initiated by staff for publication purposes, such as in a peer-reviewed journal. In general, the economics divisions use the term *policy work* to describe economic analysis, conducted by division staff and managed by division leadership, that supports the Board’s and the Federal Open Market Committee’s (FOMC) policymaking activities.

For the purposes of our report, we categorized the activities of the economics divisions into three types—*recurring economic analysis*, *nonrecurring economic analysis*, and *independent research*. These activities are further described below.

- **Recurring economic analysis** is analytical work that contributes directly to the regularly scheduled outputs that support the Board’s mission. Examples of such outputs include, but are not limited to, the *Report to the Federal Open Market Committee (FOMC) on Economic Conditions and Monetary Policy*, commonly known as the Tealbook; the *Financial Stability Report*, which details

¹ The economic analysis and research activities of the economics divisions include financial monitoring, assessment, and analysis. Three other divisions, the Division of Reserve Bank Oversight and Payment Systems, the Division of Supervision and Regulation, and the Division of Consumer and Community Affairs, also conduct some economic analysis and research; the activities of these divisions were outside the scope of this evaluation.

the Board's current assessment of the resilience of the U.S. financial system; economic forecasts; and certain statistical releases and surveys.

- **Nonrecurring economic analysis** is analytical work requested by governors or division leadership that helps to answer a specific question or provides more information on a relevant topic. In some instances, such analysis may be initiated by interested economics division staff on topics highlighted by division leadership. The outputs from this type of analysis can vary; they may be internal outputs, such as a memorandum or a briefing in preparation for an FOMC meeting, or external outputs, such as publicly available FRB Working Papers or FEDS Notes.² Staff use their expertise to determine the methods by which to address such topics, and the degree of guidance provided by management can vary by output. This type of analysis work typically requires more time to conduct than recurring economic analysis.
- **Independent research** is independently initiated by economics division staff to expand the knowledge base of the Board. Such work is frequently published in peer-reviewed economics journals and may also be available to the public through FRB Working Papers or FEDS Notes. Independent research was outside the scope of this evaluation.

We refer to all three types of activities jointly in this report as *economic analysis and research*. These activities complement each other and may evolve from one type to another. For example, a project may start as independent research and later be used to inform recurring economic analysis. As a result, a discussion of economic analysis may lack appropriate context without an accompanying reference to independent research activities, which were outside the scope of this evaluation. As noted above, Board staff may research topics of interest that expand the knowledge base of the Board. Any discussion of independent research in the Background section and the findings of this report is not meant to suggest that changes are needed regarding the selection and evaluation of independent research activities. The scope of this evaluation focused on the planning processes and supporting practices for the other two types of activities, recurring and nonrecurring economic analysis, which we refer to jointly in this report as *economic analysis*.

Given the importance of the economic analysis that supports the Board's mission, we evaluated certain planning processes and supporting practices of the economics divisions. This evaluation focused on the divisions' existing processes to plan economic analysis and did not assess how management factors unexpected events or significant changes to the economy into their planning processes. In addition, we did not assess the quantity, quality, relevance, or utility of the economics divisions' economic analysis and research.

Background

The mission of the Federal Reserve System is to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payment systems to promote optimal economic performance. The Board conducts economic analysis and research to support this mission and its strategic goals and objectives.

² Board staff develop FRB Working Papers as part of the Board's *Finance and Economics Discussion Series* or the *International Finance Discussion Papers*. These working papers are preliminary materials circulated to stimulate discussion and critical comment on a range of topics, including economics, finance, and international finance. FEDS Notes are shorter articles and less technically oriented than FRB Working Papers. FRB Working Papers and FEDS Notes are publicly available and, according to a division official, are potential outlets for both nonrecurring economic analysis and independent research.

The Board's first strategic goal in its *Strategic Plan 2020–23* is to facilitate efforts that support its mandate for price stability and maximum employment through monetary policy.³ Strategic objectives supporting this goal include

- supporting the Board's and the FOMC's policy deliberations by providing timely, high-quality research, analysis, and other information⁴
- actively pursuing research, analysis, monitoring, and measurement to advance the public's understanding of key economic and financial issues
- further promoting transparency, accountability, communication, and public education in monetary policy, economic research, and financial stability
- broadening capabilities to effectively and efficiently fulfill the Board's research mission through investment in people, technology, and data

The Economics Divisions and Their Economic Analysis and Research Activities

Board economists, analysts, research assistants, and other staff within the economics divisions conduct economic analysis and research that serve as the basis for formulating and implementing monetary, regulatory, and supervisory policy. For example, the economics divisions foster a broad understanding of issues related to economic policy by providing economic analysis and statistical research to Board, FOMC, and other System officials. In addition, the economics divisions produce forecasts, supply data and analyses for public release, and conduct novel research for working papers and academic research, among other efforts.⁵ The four economics divisions have 740 employees, accounting for nearly 26 percent of the Board's total authorized positions.⁶ A brief description of each division follows.

Division of Research and Statistics

The Division of Research and Statistics (R&S) produces assessments of current and prospective domestic economic and financial developments that inform monetary, regulatory, and supervisory policy. In addition, the division fosters a broader understanding of issues related to economic policy by (1) providing economic and statistical research and (2) supplying data and analyses for public release. R&S coordinates with other Board divisions to support financial stability activities, community development functions, and financial institution oversight responsibilities.

³ The monetary policy objectives outlined in the Federal Reserve Act are promoting the goals of maximum employment, stable prices, and moderate long-term interest rates in the United States.

⁴ The Federal Reserve System implements monetary policy using several tools, including the discount rate, reserve requirements, open-market operations, forward guidance, and large-scale asset purchases. The Board is responsible for the discount rate and reserve requirements, and the FOMC is responsible for open-market operations, forward guidance, and large-scale asset purchases. The FOMC consists of 12 members: the 7 Board governors; the president of the Federal Reserve Bank of New York; and 4 of the remaining 11 Reserve Bank presidents, who each serve a 1-year term on a rotating basis.

⁵ As previously noted, such independent research activities were outside the scope of this evaluation.

⁶ The total number of authorized positions includes support staff who may not conduct economic analysis or research activities.

Division of Monetary Affairs

The Division of Monetary Affairs (MA) supports the Board and the FOMC with all aspects of formulating, communicating, and implementing monetary policy. The division fulfills this role by monitoring and analyzing developments in financial markets and institutions, developing and analyzing alternative monetary policy strategies, drafting FOMC statements and other policy communications in consultation with policymakers, and managing or overseeing the tools of monetary policy. MA also collaborates with other divisions to support the Board's role in promoting financial stability, the safety and soundness of financial institutions, and a safe and efficient payment system.

Division of International Finance

The Division of International Finance (IF) provides policymakers with assessments of current and prospective international economic and financial developments. IF evaluates and forecasts major economic and financial developments abroad, developments in foreign exchange and other international asset markets, and U.S. international transactions. IF has an economic analysis program that monitors foreign financial institutions, markets, and infrastructure to assess potential financial stability risks. It also supports the Board chair's and other Board governors' participation in various international economic policy organizations.

Division of Financial Stability

The Division of Financial Stability (FS) identifies and analyzes risks to financial stability and develops and evaluates macroprudential policy responses to those risks. FS has an economic analysis program that monitors financial institutions, markets, and infrastructure to assess potential risks. FS works jointly with other Board divisions and staff at the Federal Reserve Banks to support the Board's responsibilities for monitoring financial sector vulnerabilities and developing macroprudential policies, including the semiannual release of the *Financial Stability Report*. FS also supports the Board chair's and other governors' participation in domestic and international bodies related to financial stability, including the Financial Stability Oversight Council and the G20 Financial Stability Board.⁷

Board Committees That Oversee the Economics Divisions

Two Board committees, each chaired by a Board governor who is the designated oversight governor for that committee, oversee the substantive responsibilities and strategic priorities of the economics divisions.⁸

- The Committee on Economic and Monetary Affairs oversees R&S, MA, and IF. It informs and advises the Board on domestic and international economic matters and financial developments

⁷ The Financial Stability Oversight Council, an interagency council comprising the leaders of each of the federal financial regulatory agencies, is responsible for identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system. The G20 Financial Stability Board promotes international financial stability by coordinating national financial authorities and international standards-setting bodies as they work to develop regulatory, supervisory, and other financial-sector policies.

⁸ Throughout this report, we refer to the governors who chair these committees as *oversight governors*. All Board committee members, including the committee chair, are designated by the Board chair. The Board chair may reconsider committee assignments at any time but generally does so following the arrival or departure of Board governors.

as well as matters identified by or relevant to economic analysis, research, measurement, and monitoring.

- The Committee on Financial Stability oversees FS and informs and advises the Board on financial stability matters, including providing guidance on policies to enhance financial stability.

The Organization of the Economics Divisions' Economic Analysis and Research Activities

Staff in the economics divisions conduct all three types of economic analysis and research; the time spent on these activities varies by staff, section, and division. The economics divisions coordinate extensively on certain economic analysis outputs, such as those related to monetary policy and financial stability analysis; however, each division has separate annual or biennial processes to independently plan its economic analysis activities.⁹ These annual or biennial planning processes are informed by conversations with governors and other Board leaders.

As part of our effort to understand the organization of economic analysis and research activities in a central banking environment, we reviewed external evaluations of the economic analysis and research departments of other central banks, including the European Central Bank, the Bank of England, and the Bank of Canada.¹⁰ One such review outlined three organizational approaches to economic analysis and research within a central bank environment:

- Centralize all economic analysis and research activities into a single department.
- Structure each department to have its own research group that conducts nonrecurring economic analysis and independent research.
- Have all staff in all departments perform all types of economic analysis and research activities.¹¹

The Board economics divisions use this last approach.

Officials from the economics divisions noted several benefits derived from the Board's organizational approach to economic analysis and research. One benefit is that the skills acquired through independent research strengthen economic analysis activities. Another benefit is that the two-way synergy between recurring economic analysis and independent research results in these two types of work informing and reinforcing each other.

⁹ The economics divisions' annual and biennial plans may contain information pertaining to the planned or ongoing independent research activities of division staff; however, division leadership does not direct these independent research activities. Independent research was outside the scope of this evaluation.

¹⁰ Central banks may periodically select an independent review panel—often consisting of experienced leaders from other central bank economic analysis and research groups and distinguished academic economists—to help identify potential process improvements.

¹¹ Charles Freedman, Philip R. Lane, Rafael Repullo, and Klaus Schmidt-Hebbel, *External Evaluation of the Directorate General Research of the European Central Bank*, January 25, 2011.

Key Economics Division Positions That Plan, Conduct, or Coordinate Economic Analysis and Research

A division director, who is part of the Board's official staff (known as *officers*), leads each of the four economics divisions and, along with other officers in the division, their division's economic analysis activities, among other responsibilities. There are five position groups within the economics divisions that plan, conduct, or coordinate the majority of the divisions' economic analysis and research activities.

Officers. The division director and other officers who oversee all sections within the division ensure that their division's work aligns with the Board's mission. Officers provide program direction, oversight, and strategic planning for their respective sections within the division, which focus on specific economic topics. Division directors and other officers may also conduct independent research.

Section chiefs. Section chiefs, who report to officers, lead sections within the division. Some of their key responsibilities include developing section objectives and priorities, supervising section employees, and ensuring the timeliness and quality of section outputs. Section chiefs also conduct independent research.

Economists. The Board has three levels of PhD economist positions at the Board: economist, senior economist, and principal economist. Economists at the Board conduct economic analysis and research on a broad range of topics in economics and finance and contribute to economic analyses used by the Board governors.

Analysts and research assistants. The Board has many types of analyst positions that conduct or support economic analysis and research activities, including business, financial institution policy, information management, management, and technology analysts. In addition, research assistants help economists in their reporting, research, modeling, forecasting, database maintenance, and regulatory casework.

Special advisors. Each Board governor is supported by one or more special advisors, on temporary assignment from Board divisions, who help execute the governor's priorities.¹² Their responsibilities include, but are not limited to, assisting governors on monetary, regulatory, supervisory, and other policy issues by participating in relevant economic discussions and briefings; helping to manage governors' policy-related workflows; and helping to facilitate communication between staff and governors. Current and former special advisors noted that the role of special advisors is not to influence policy or direct Board staff; rather, special advisors serve as a conduit for information.

The Economics Divisions' Planning Processes and Supporting Practices for Their Economic Analysis Activities

The Board economics divisions each have distinct annual or biennial planning processes to plan and prioritize their economic analysis activities.¹³ The divisions also use a series of planning practices that

¹² Special advisors who advise on economic analysis are typically assigned from the economics divisions.

¹³ In addition to planning and prioritizing economic analysis activities, these processes also help to identify available resources and inform division budget and operational planning, among other things. The focus of our evaluation was the planning processes and supporting practices for economic analysis activities. As previously noted, division annual and biennial plans may contain information pertaining to the planned or ongoing independent research activities of economics division staff; however, division leadership does not direct these independent research activities.

support their planning processes. Planning practices, and the planning processes they support, vary by division and include the following:

- R&S sections develop a plan that summarizes their priorities and initiatives annually. Section chiefs, in collaboration with section economists and officers, develop a plan that includes economic analysis and research focus areas, key section challenges, mitigation strategies for key section challenges, and goals for the next several years. These section plans are accessible to all Board staff on the division's intranet. R&S officers and section chiefs meet to discuss these individual section plans and hold annual meetings to discuss high-priority topics.
- MA officers and section chiefs hold an annual strategic planning meeting to discuss economic analysis and research priorities, as well as other management priorities. At the strategic planning meeting, all MA section chiefs and officers discuss section-specific topics and divisionwide priorities for the coming year. This meeting results in a division-level strategic plan that is communicated to all division employees through divisionwide town halls, in staff conversations with section chiefs, and by posting a summary of the strategic plan and updates on the progress made toward the plan's objectives to the division's intranet.
- IF leadership develops a biennial strategic plan that includes current and future economic analysis and research topics, as well as a wide range of other matters of importance to the division. An overview of the topics discussed at IF's biennial strategic planning meeting is communicated via email and through divisionwide town halls. In addition, IF's sections develop annual plans that include a review of the prior year's work, human resource concerns, and priority topics for future economic analysis and research. Staff in each section learn about their section's annual plan via conversations with section chiefs.
- FS holds an annual strategic planning meeting to set the division's goals for the coming year. Prior to this meeting, FS section chiefs summarize resource needs, key economic analysis and research projects, and any challenges and risks to accomplishing these projects. FS's strategic plan, which is communicated to staff by the section chiefs, captures the results of this meeting. FS also maintains a variety of documents that communicate plans, priorities, and timelines to staff. For example, FS posts a list called the Grapevine to its intranet; the Grapevine highlights important topics of interest to policymakers from which staff may initiate new economic analysis and research.

Common Planning Practices Identified Through Benchmarking and a Review of Relevant Reports and Guidance

Through our benchmarking and review of relevant reports and guidance, we identified common planning practices used by other organizations' economic analysis and research departments. These practices can help improve planning processes for economic analysis by increasing the transparency, communication, and monitoring of certain activities. Considering these common planning practices can enhance some of the economics divisions' planning processes for economic analysis. Identified common planning practices include the following:

- Regularly communicate with the organization's governing body when setting economic analysis and research plans.

- Gather policymaker feedback to help economists identify ways to improve and specifically tailor outputs for policymakers, decrease the amount of rework, and better meet policymakers' needs.
- Document economic analysis and research department plans and make them available to all staff to foster transparency and identify opportunities for collaboration.
- Use certain tools to gauge the allocation of economists' time spent across different types of economic analysis and research activities.

Some planning practices used by one or more of the economics divisions align with certain identified common planning practices.



Finding 1: The Economics Divisions Can Make Certain Plans and Priorities for Economic Analysis More Transparent to Board Governors

Governors gain insight into the economics divisions' plans and priorities for economic analysis—identified during division annual and biennial planning processes—through a variety of methods, which results in those plans and priorities not being consistently transparent. From our benchmarking and review of relevant reports and guidance, we determined that it is important for economic analysis and research departments to conduct recurring meetings with their organization's governing body to communicate economic analysis plans and priorities. We found that the economics divisions do not have consistent methods to communicate certain plans and priorities for economic analysis with the governors. Without a more consistent approach to communication, oversight governors may miss opportunities to provide feedback to the relevant divisions, and other governors may miss opportunities to gain informative and useful insights into division plans and priorities.

Board Governors Have Varying Levels of Transparency Into Certain Plans and Priorities for Economic Analysis

Governors gain insight into the economics divisions' annual and biennial plans and priorities for economic analysis through a variety of methods, which results in the governors having varying levels of transparency into those plans and priorities. Generally, governors noted that they become aware of the economics divisions' plans and priorities through their oversight governor responsibilities, direct conversations with economics divisions' directors, and interactions during the FOMC policy rounds, among other methods; however, some governors also noted less transparency into some plans and priorities for economic analysis.¹⁴ One governor noted that they did not view this more limited transparency as a flaw in the communication process because their special advisor kept them apprised of the economics divisions' priorities. Governors did not note a lack of transparency with regard to the economic analysis that supports FOMC policy rounds.

Some economics divisions have taken steps to increase the transparency of their plans and priorities for the governors. For example, R&S has sought to increase transparency by creating a division-specific document called *Plans for Research and Statistics* that synthesizes the division's economic analysis and other activities that are ongoing or planned for the next 1–2 years. The document helps to provide all the

¹⁴ The FOMC holds eight regularly scheduled meetings, or policy rounds, per year. At these meetings, the FOMC reviews economic and financial conditions, determines the appropriate monetary policy stance, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

governors with insight into the division's plans and priorities.¹⁵ Additionally, at the request of its oversight governor, FS developed a project dashboard, available to all division staff on its intranet, that provides an overview of the division's ongoing economic analysis projects and expected completion timelines. The oversight governor reviews the dashboard and provides input on project prioritization.

The amount of information a governor needs on the economics divisions' plans and priorities for economic analysis may vary based on their role. Specifically, oversight governors, who are responsible for overseeing the substantive responsibilities and strategic priorities of the economics divisions, may require more detailed information than governors who do not have similar oversight responsibilities.¹⁶ Nonetheless, we believe that the economics divisions, in coordination with the relevant oversight governor, should ensure that all governors have consistent opportunities to gain a comprehensive understanding of the divisions' plans and priorities for economic analysis identified during division annual and biennial planning.

Analysis and Research Departments at Other Central Banks Regularly Communicate With Their Governing Body About Plans and Priorities

From our review of relevant reports and guidance, we found that it is important for economic analysis and research departments to regularly communicate with their organization's governing body during planning. For example, one external evaluation of a central bank notes the importance of the central bank's governing body sharing its views on the department's plans and priorities early in the planning process.

Similarly, we found that the economic analysis and research departments in most of our benchmark organizations have recurring meetings with their governing body to discuss their plans.

- At one benchmark organization, the economic analysis and research departments provide the deputy governor and the chief operating officer with quarterly reports on the progress made toward the medium-term research plan.¹⁷ Additionally, twice a year, each of the departments provides the governing body a thematic review of the economic analysis it is conducting.
- Another benchmark organization's economic analysis and research group reports to its governing body annually. In addition, twice a year, with agreement from the governing body, the organization updates its economic analysis and research topics for the coming 6 months.
- The head of the research department at a third benchmark organization meets with their governing body twice a year to discuss economic analysis and research focus areas within the

¹⁵ This document contains a summary of independent research activities that R&S staff are pursuing and that may be of interest to the governors. These activities were outside the scope of this evaluation.

¹⁶ Although oversight governors oversee the substantive responsibilities and strategic priorities of their respective economics divisions, current and former Board officials have stated that Board staff use independent judgment when producing economic analysis.

¹⁷ This medium-term research plan includes activities that we consider nonrecurring economic analysis.

context of the organization's 3-year strategic plan.¹⁸ The governing body provides input on the plan by asking questions and inquiring about other topics of interest.

Enhancing the Communication of Certain Plans and Priorities Can Improve the Governors' Knowledge of the Economics Divisions' Planning Activities

We found that the economics divisions do not have consistent methods to communicate certain division-level plans and priorities for economic analysis with the governors, based on our review of division documents and discussions with governors. Although R&S recently began communicating its division-level priorities with all the governors via its *Plans for Research and Statistics*, the other economics divisions are not reaching all the governors as comprehensively.¹⁹ According to an MA official, MA's oversight governor typically gains an understanding of and provides input on MA's priorities through frequent conversations with the division director. MA's communication of its plans and priorities for economic analysis with the other governors is informal. IF provides the governors with an opportunity to offer feedback to its division director on the division's broad strategic plan, but some governors noted that they did not have a clear sense of IF's plans and priorities for economic analysis. FS has a routine process to discuss its priorities for economic analysis with its oversight governor but does not have a process to inform the other governors.

Because the economics divisions do not have a consistent approach for communicating certain plans and priorities for economic analysis, division-level activities may not be consistently transparent to all the governors. In general, the oversight governors have more insight and input into the economics divisions' plans and priorities than the other governors, who may only gain insight into certain planning information informally. One special advisor believes that improved communication may provide the governors with additional transparency into the divisions' plans and priorities. The special advisor noted, for example, that regular meetings between the economics divisions and the governors to discuss various economic analysis and research topics may be beneficial.

Although we acknowledge that governors may have varying information needs based on their specific responsibilities, an inconsistent communication approach may result in oversight governors missing opportunities to provide feedback to the divisions they oversee and other governors missing opportunities to gain informative and useful insights into division plans and priorities. In addition, establishing a more consistent approach for communicating division plans and priorities can facilitate the transition when governors' committee assignments change.

¹⁸ These focus areas may include certain nonrecurring economic analysis activities, such as economist-initiated work on topics highlighted by central bank leadership.

¹⁹ R&S has not yet determined how frequently it will update and issue this document.

Recommendation

We recommend that the economics divisions' directors, in coordination with their respective oversight governor and in consultation with the other Board governors,

1. Consider and implement new approaches to more consistently communicate division plans and priorities for economic analysis with Board governors.

Management Response

In its response to our draft report, the Board concurs with our recommendation. The economics divisions outline a plan to develop, in coordination with the Board governors, an interdivisional webpage that will be used to improve the communication of division plans and priorities for economics analysis to the governors. The economics divisions plan to make this website available to the governors by the fourth quarter of calendar year 2021.

OIG Comment

The planned actions described by the economics divisions appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 2: The Economics Divisions Can Improve Processes to Gather and Communicate Governor Feedback on Nonrecurring Economic Analysis Outputs

The economics divisions have not established consistent approaches to gather governor feedback on their nonrecurring economic analysis outputs and communicate that feedback to staff. Governors have a few methods for providing feedback on recurring economic analysis outputs directly to staff, including interacting with staff during presentations and at FOMC follow-up meetings; however, such opportunities may be less frequent for certain nonrecurring economic analysis outputs. In these instances, division leadership or, to a lesser extent, special advisors disseminate governor feedback; this approach may be inconsistent, however, or provide varying levels of detail. Through our review of relevant reports and guidance and through benchmarking, we found that policymaker feedback is important because it helps to confirm that their needs are being met and it can help improve economic analysis and research outputs. If the economics divisions do not develop a consistent approach to gather governor feedback on nonrecurring economic analysis outputs and to communicate that feedback to staff, the divisions may miss opportunities to better meet governor needs and improve their outputs.

The Economics Divisions Do Not Have a Consistent Approach to Gather and Communicate Certain Governor Feedback

The economics divisions do not have consistent approaches to gather governor feedback on nonrecurring economic analysis outputs and communicate that feedback to staff. In conversations with principal economists and section chiefs, among others, we found that the amount of governor feedback the staff receive on their outputs varies based on several factors, including the economic analysis type and the opportunities the staff have to interact with a governor. One principal economist noted that the amount of governor feedback is often based on the nature of a particular section's work, and one division official noted that there are multiple channels for the division to receive feedback from governors, including multiple meetings within each FOMC cycle. We found that the sections that spend more time on recurring economic analysis related to FOMC policy rounds typically receive more governor feedback than other sections. FOMC policy rounds provide regular opportunities for governors to communicate feedback to staff.

Sections with a greater focus on nonrecurring economic analysis may have fewer opportunities to receive governor feedback, making it challenging for staff to know whether their work is meeting governor needs. In such instances, governor feedback is disseminated by division leadership or sometimes by special advisors; this approach to communication may be inconsistent and provide varying levels of detail. One governor noted that the amount of feedback they provide depends on how proactive division leaders are at soliciting that feedback. In addition, one special advisor noted that there is currently no efficient way

for the governor they support to provide feedback to the economics divisions. To mitigate this challenge, this special advisor actively solicits and provides the governor's feedback to the divisions.

Common Planning Practices Include Regularly Obtaining Feedback From the Governing Body on Analysis and Research Department Outputs

We identified that gathering policymaker feedback is an important common planning practice. From our review of relevant reports and guidance, we found that policymaker feedback helps staff to tailor economic analysis outputs to better meet policymaker needs. For example, in one external evaluation, subject-matter experts recommended that a central bank develop tools to gather governor feedback to help improve the quality of outputs. We believe that gathering policymaker feedback may also reduce the potential need for rework.

Our benchmark organizations provided us with examples of how they gathered policymaker feedback. For instance, one benchmark organization surveys its policy committees every year to determine whether they receive the economic analysis and research they need to do their job. The survey includes a narrative section where policymakers can provide specific feedback.

Benchmark organizations noted certain challenges in soliciting their policymakers' feedback on research outputs. Specifically, one benchmark organization noted that its policymakers find it challenging to provide feedback on certain research outputs when they were not involved in the process of developing the research output. Another organization noted that opportunities for feedback are limited by its policymakers' busy schedules.

Improved Dissemination of Governor Feedback to Staff Can Enhance the Economics Divisions' Ability to Meet Governor Needs

Similar to our benchmark organizations, Board governors' busy schedules may not afford the time to consistently provide staff with direct feedback on nonrecurring economic analysis outputs. In addition, governors may not directly provide constructive feedback to staff depending on the appropriateness of the setting. During conversations with section chiefs and principal economists, we learned that additional feedback could help them to determine whether their work is meeting governor needs. Such feedback may include governor perspectives about the quality or the usefulness of an output. Given such feedback challenges, special advisors have sometimes helped facilitate, as appropriate, the communication of governor feedback to the divisions. Special advisors meet frequently with governors and are in a unique position to obtain their perspectives on the economics divisions' outputs and to communicate those perspectives to staff.

One responsibility of special advisors is to facilitate effective communication between governors and the economics divisions. In addition, special advisors work with the divisions to ensure that their outputs will satisfy governor expectations. However, the responsibilities of special advisors can differ based on the needs of the governor to whom they are assigned, and the way in which special advisors disseminate

governor feedback to economics divisions can vary. For example, one special advisor noted that they communicate governor feedback directly to staff, while another special advisor typically communicates governor feedback to division leadership rather than to the staff directly.

If the economics divisions do not develop more consistent approaches for gathering and communicating governor feedback on nonrecurring economic analysis outputs, they may miss opportunities to ensure that governor needs are being met and to improve economics divisions' outputs. Additionally, receiving governor feedback more consistently could help to minimize the potential need for rework by the economics divisions.

Recommendation

We recommend that the economics divisions' directors, in consultation with the Board governors,

2. Consider and implement new approaches to gathering governor feedback on their nonrecurring economic analysis outputs and communicating that feedback to staff. As part of this effort, consider clarifying the roles and responsibilities of special advisors with respect to obtaining and communicating governor feedback, as appropriate.

Management Response

In its response to our draft report, the Board concurs with our recommendation. The economics divisions state that the division directors or their delegates will meet with the Board governors at least once a year to gather governor feedback for communication to division staff. The response notes that by being deliberate about gathering governor feedback, the economics divisions can improve the consistency of the delivery of feedback to staff. In addition, special advisors will continue to provide feedback to staff, as appropriate. The first meetings with the governors will be scheduled by the third quarter of calendar year 2021.

OIG Comment

The planned actions described by the economics divisions appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 3: The Economics Divisions Can Better Communicate Certain Plans and Priorities for Economic Analysis Within and Across Divisions

The economics divisions' plans and priorities for economic analysis, identified during their annual and biennial planning processes, are not consistently communicated or made easily accessible to staff within and across divisions. As a common practice, many of our benchmark organizations clearly communicate analysis and research department plans and priorities to staff. The informal manner in which economics divisions communicate their economic analysis plans and priorities limits the accessibility of these plans and priorities to economics division staff, which may hinder their ability to identify opportunities to coordinate work in areas of mutual interest with other sections or divisions.

The Transparency of Certain Plans and Priorities Is Inconsistent Within and Across Divisions

The economics divisions have annual and biennial processes to plan and prioritize their economic analysis activities.²⁰ Divisions typically rely on section chiefs to communicate the resulting division-level or section-level plans and priorities with their section staff. In addition, division leaders communicate plans and priorities through town halls and other periodic communications with their staff.

Section-level and division-level plans and priorities are communicated in the following ways, as described by division officials and in supporting documents:

- R&S's annual section plans are available to all Board staff on the division's intranet. These plans are also typically communicated to staff verbally through section meetings and one-on-one performance management meetings between section chiefs and staff. In January 2020, R&S shared a summary of its division-level plan with division staff via email; however, this summary is not available to all division or other Board staff on the division's intranet.
- MA's annual division-level strategic plan is communicated verbally to all division employees through divisionwide town halls, conversations between section chiefs and staff, and the MA Advisory Council.²¹ Strategic plan summaries and updates are also communicated to MA staff through email and are made available—along with each sections' mission statement and objectives—to all Board staff on the division's intranet. Although a brief summary of the annual

²⁰ The plans that result from these processes may include information about independent research activities, which division staff independently plan and initiate.

²¹ The mission of the MA Advisory Council is to advise and guide division strategic initiatives and efforts on programs and policies that connect staff to the division's mission and goals, encourage clear and transparent career development and growth opportunities, and create an environment in which all staff can contribute to the division's success.

planning meeting and updates can be found on the division's intranet, the summary and updates may be difficult to find and may not capture all economic analysis plans and priorities.

- IF's annual section plans are communicated to its sections through conversations between section chiefs and staff. Additionally, an overview of the topics discussed at IF's biennial strategic planning meetings is communicated through email and divisionwide town halls. However, the annual section plans and biennial strategic plans are not available to all division staff or to other Board staff.
- FS's annual division-level strategic plan is communicated to staff verbally through section meetings and one-on-one performance management meetings between section chiefs and staff. During our fieldwork, the strategic plan was not available to division or to other Board staff on the division's intranet.²²

Beyond verbal communications from senior officials within a specific division or the information available on division intranets, the economics divisions do not consistently make division-level and section-level plans readily available to all staff of the four economics divisions. Some section chiefs and principal economists noted that they had insights into the plans and priorities of other divisions through conversations with staff within their professional network. The collegial environment among the Board economics divisions encourages staff to use informal interactions to disseminate information, including division plans and priorities; however, this informal culture may not provide the same benefit to all staff.

Analysis and Research Departments at Other Central Banks Make Their Plans and Priorities Readily Available to All Staff

From our review of relevant reports and guidance, we identified that documenting certain economic analysis plans and priorities and making them available to all staff help to foster transparency and encourage staff to pursue priority topics of interest to the organization.²³ For example, most of our benchmark organizations make their plans and priorities for economic analysis available to all staff on their organizations' intranet. Our benchmarking corroborated the benefits of formally documenting plans and priorities and making these documents available to all staff. An official from a benchmark organization noted that increased transparency helps to share plans and priorities within the organization and to provide insights into the work of others.

The Economics Divisions Can Improve the Accessibility of Certain Plans and Priorities

We believe that the limited accessibility of division-level and section-level plans and priorities to staff in all the economics divisions may inhibit transparency and hinder the staff's ability to identify opportunities

²² The Grapevine and the dashboard remain available on the division's intranet. After our fieldwork concluded, FS posted a summary of its strategic plan on its intranet that is available to all division and Board staff.

²³ Benchmark organizations noted that these plans highlighted certain priorities for their economic analysis and research departments and did not include sensitive or need-to-know economic information.

to collaborate within or across divisions on economic analysis activities in areas in which they have expertise or interest. The economics divisions can improve the accessibility of certain plans and priorities for economic analysis to staff within and across the economics divisions by formally documenting and communicating those plans and priorities. For example, posting plans and priorities to division intranets improves their accessibility. Greater transparency may help to keep staff informed of activities beyond their own section's efforts and allow them to gain a more holistic understanding of the Board's economic analysis activities. Increased transparency may also help staff to identify opportunities to coordinate work in areas of mutual interest with other sections or divisions.

Recommendation

We recommend that the economics divisions' directors

3. Consider and adopt additional methods to communicate the economics divisions' plans and priorities for economic analysis to staff within and across the economics divisions.

Management Response

In its response to our draft report, the Board concurs with our recommendation. Each of the economics divisions will improve communications by displaying its plans and priorities for economic analysis more prominently on its intranet. In addition, staff in each economics division will be able to view the plans and priorities of all other economics divisions. The economics divisions plan to make these changes by the fourth quarter of calendar year 2021.

OIG Comment

The planned actions described by the economics divisions appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 4: Certain Economics Divisions Can Better Gauge Economists' Time Allocation Among Activity Types

Certain economics divisions have not implemented division-level methods to gauge economists' time spent among activity types (recurring economic analysis, nonrecurring economic analysis, and independent research²⁴) that may help the economics divisions identify any potential divisionwide activity imbalances.²⁵ The allocation of time among activity types is typically monitored at the economics divisions' section level and is designed to achieve the Board's priorities most efficiently, according to a division official. Division leadership believes that there is an appropriate distribution of time spent across activity types by economists. IF also uses a tool to gauge time allocation at the division level, and through benchmarking, we identified additional methods of estimating economists' time allocation that may assist with divisionwide resource allocation. With additional methods to gauge how economists' time is spent among activity types at the division level, R&S, MA, and FS may be able to identify additional opportunities to address an over- or underemphasis of certain activity types. Addressing any such imbalances may help reduce economist turnover and aid in developing economists' skill sets.

The Economics Divisions Primarily Rely on Section Chiefs to Assess Time Allocation Among Activity Types

We found that the economics divisions primarily monitor economists' time spent across activity types at the section level on an after-the-fact, estimated basis. According to division officials, section chiefs conduct this monitoring as part of the annual performance review process. FS also monitors economists' time spent across activity types using an assignment tracker, which is accessible to all division staff through its intranet. The tracker helps FS to distribute recurring and nonrecurring economic analysis activities equitably across the division. FS augments its assignment tracker monitoring with feedback from section chiefs. In addition to section-level monitoring, IF uses a biennial survey to gauge time allocation at the division level.

Officials from these divisions believe that the practices they currently use are sufficient to monitor time allocation among activity types and help to confirm an appropriate mix among activity types. One main purpose of gauging time use at the division level is to identify any issues that may emerge, such as the crowding out of independent research. Board officials have noted that during a market event or crisis, for

²⁴ Including independent research within the context of this finding is not meant to suggest that Board leadership should direct the topics or the overall direction of independent research.

²⁵ This observation is not meant to suggest that the economics divisions should develop a method to closely monitor daily, weekly, or monthly hours spent among activity types; rather, we believe that these divisions can use division-level methods to better gauge how their economists generally spend time among activity types on an after-the-fact, estimated basis.

example, independent research may be crowded out by economic analysis requested by policymakers related to the specific event or crisis.

Common Planning Practices Highlight the Benefits of Periodically Gauging the Allocation of Time Among Activity Types

We identified from our review of relevant reports and guidance that providing economists with adequate time to pursue a mix of activity types is a common planning practice. We also identified through our benchmarking efforts multiple planning practices to periodically gauge time allocation. For example, the head of independent research at one central bank tracks the organization's progress toward achieving the bank's strategic objectives, which include goals for nonrecurring economic analysis and independent research activities, and holds quarterly meetings with directors of the bank's analysis and research departments to ensure that recurring economic analysis does not crowd out such activities. Another benchmark organization gauges how economists divide their time among activity types through a triennial time-use survey.

At the Board, IF uses a similar method to gauge time allocation among activity types on an after-the-fact, estimated basis for all of its economists. Specifically, IF conducts biennial surveys that cover a wide range of topics, including asking how economists feel about the time available to conduct independent research. From this survey, IF division leadership can determine whether their economists are generally satisfied with the amount of time they have available to conduct independent research. IF division leadership can also aggregate the anonymous opinions collected from various staff levels to target any activity imbalances identified. Survey responses have indicated that time allocation across activity types can be improved.

Certain Economics Divisions May Benefit From Developing Additional Practices to Gauge Time Allocation Among Activity Types

Officials from R&S, MA, and FS believe that the practices they currently use, such as relying on section chiefs to oversee time allocation and in the case of FS, using an assignment tracker, are sufficient to monitor time allocation among activity types and help to provide an appropriate mix among activity types.

The allocation of economists' time among activity types may be affected, however, by economic conditions, the number of nonrecurring economic analysis requests made of a division or section, and the ability of economists to timely complete recurring economic analysis, among other factors. Without a process to gauge time allocation among activity types at the division level, the economics divisions may not be able to identify and resolve any imbalances. Imbalances may result in over- or underemphasizing certain activity types, which in turn may lead to turnover and recruiting difficulties. For example, one Board official stated that during the 2007–2008 financial crisis, economists were focused on economic analysis and had limited time for independent research. The official also noted that this focus may have

contributed to challenges in attracting new economists during the recruitment process. In addition, if economists are not conducting a broad range of activity types, they may miss opportunities to develop their skill sets. For example, skills acquired through independent research may inform an economist's ongoing economic analysis efforts.

We acknowledge that differences in the level of experience or efficiency among economists who conduct various economic analysis and research activities, among other factors, may result in certain challenges when gauging time allocation. For instance, a division official noted that time spent among activity types may vary based on differences in employee productivity. Nevertheless, we believe that gauging economists' time spent among activity types at the division level can help the divisions identify opportunities to address any time allocation issues. In addition, we believe that a division-level assessment of economists' overall time allocation among activity types on an after-the-fact, estimated basis need not be a significant daily, weekly, or monthly administrative burden. This assessment could occur on a less frequent basis, as determined by economics divisions' leadership.

Recommendation

We recommend that the division directors for R&S, MA, and FS

4. Consider and adopt methods to gauge economists' time spent among activity types at the division level.

Management Response

In its response to our draft report, the Board concurs with our recommendation. R&S, MA, and FS will conduct periodic surveys, similar to the staff survey that IF conducted. MA completed such a survey in January 2021, and R&S and FS plan to do so by the fourth quarter of calendar year 2021. In addition, the response states that gathering similar information on the surveys should allow for cross-divisional comparison, which should support each division's planning processes.

OIG Comment

The planned actions described by the economics divisions appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 5: The Economics Divisions Can Use Additional Methods to Continuously Improve Their Planning Processes for Economic Analysis

The economics divisions do not have a structured way to share their annual and biennial planning processes and supporting practices for economic analysis with each other and have not made use of an external evaluation of these planning processes and supporting practices to identify potential improvement opportunities. We believe that sharing processes and supporting practices with peer divisions and undergoing an external evaluation may contribute to continuous improvement efforts. The Board's strategic plan encourages collaboration on research and analysis with internal and external colleagues to identify process enhancements. The economics divisions' interactions tend to be collegial and unstructured, and this approach to sharing planning processes and supporting practices may limit the economics divisions' ability to identify beneficial processes used by their peer divisions. Our review of relevant reports and guidance identified external evaluations as a way to identify process enhancements; although we did not find any specific economic analysis planning matters that warranted an external evaluation, we believe that this continuous improvement tool can provide useful, expert, outside perspectives on the economics divisions' planning processes. The nature and scope of any prospective external evaluation should be determined in consultation with the governors and economics division leadership.

The Economics Divisions Can Make Use of Internal and External Methods to Improve Their Planning Processes for Economic Analysis

The economics divisions' efforts to identify opportunities to improve their division-specific annual and biennial planning processes for economic analysis tend to be ad hoc.²⁶ For example, division leadership occasionally solicits feedback from staff on how to improve the division's planning processes and may form a team of division employees to identify possible process changes. In addition, one official noted that a division changes its annual research planning process in response to significant events, such as the 2007–2008 financial crisis. Lastly, an official from a different division noted that improvements to that division's annual planning process are identified extemporaneously.

²⁶ Annual and biennial planning processes may include certain information about independent research activities; however, division leadership does not direct staff's independent research activities.

The Sharing of Division Planning Processes and Supporting Practices for Economic Analysis Is Unstructured

Each economics division has its own annual or biennial planning processes to independently plan their economic analysis activities and typically identifies opportunities for planning process improvements in a siloed manner. During our evaluation, economics division officials expressed an interest in learning about the planning practices of the other economics divisions; however, the divisions do not have a structured approach to sharing division planning processes and supporting practices.

We identified that the economics divisions have implemented certain common planning practices used by our benchmark organizations. We noted, however, that these practices had not been adopted across divisions. We acknowledge that each division may have different planning needs, but we believe that the divisions may be able to enhance their planning processes by more consistently sharing such practices with each other. Some of these practices include the following:

- R&S develops a document called *Plans for Research and Statistics*, which provides transparency into the division's plans and priorities to governors.
- MA makes a clear link between the Board's strategic plan and its planning process, which allows the division to better align and justify expenditures.
- IF surveys all division staff on a biennial basis to provide management with transparency into staff perspectives and to inform the division's planning processes.
- FS's Grapevine aids staff when they are considering initiating certain nonrecurring economic analysis projects.

The Economics Divisions' Planning Processes for Economic Analysis Have Not Been Evaluated by Independent Experts

Another way for the economics divisions to potentially identify opportunities to improve planning processes and supporting practices for economic analysis would be to initiate an external evaluation. We emphasize that (1) we did not identify any economic analysis planning matters that warranted an external review and (2) the Board periodically conducts internal reviews of, or related to, its economic analysis activities (for example, the Federal Reserve System's review of monetary policy strategy, tools, and communications).²⁷ An external evaluation would allow the economics divisions to obtain the perspectives of independent experts from peer organizations regarding opportunities for improvement.²⁸ Division leadership indicated that they were not aware of any prior Board requests for an independent expert review panel to conduct a review of any Board economic analysis or research activities.

Examples of the types of topics addressed by external evaluations include assessments of the quality, relevance, and utility of independent research; the allocation of time among activity types in a research

²⁷ The Federal Reserve System issued a revised *Statement on Longer-Run Goals and Monetary Policy Strategy* in August 2020. This effort included a broad review of the strategy, tools, and communication practices the System uses to pursue the monetary policy goals established by Congress: maximum employment and price stability.

²⁸ Although the focus of our evaluation is on division planning processes and supporting practices for economic analysis, at the discretion of division leadership and the governors, such an external evaluation could also review certain research activities.

program; and the research environment and staff incentives. For example, an external evaluation of the Bank of Canada noted the importance of management's active consideration of the research environment, including economists' career tracks and computing resources and the interaction of staff with others in the broader profession.

Sharing Certain Planning Processes and Practices and Undergoing an External Evaluation Can Contribute to Continuous Improvement

The Board's strategic plan includes an objective that encourages collaboration with internal and external colleagues on research and analysis through technology, automation, infrastructure, and process advancements. Sharing planning processes and supporting practices among the economics divisions and undergoing external evaluations can facilitate this type of collaboration. In addition, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states that management should periodically review procedures for continued relevance and effectiveness.

Our review of relevant reports and guidance revealed that central banks and other international banking organizations identify opportunities for continuous improvement of their economic analysis and research planning processes, supporting practices, and related activities through external evaluations. We found multiple examples of organizations that have had at least one external evaluation conducted in the past 20 years, including the Bank of Canada, the Bank of England, the Banque de France, the Deutsche Bundesbank, the European Central Bank, the International Monetary Fund, and the Bank for International Settlements. In designing such an evaluation, central banks and other international banking organizations have the discretion to select the most appropriate subject-matter experts to conduct the evaluation, as well as to establish the evaluation's objectives, scope, and areas of focus.

External evaluations have assisted central banks and international banking organizations in identifying potential opportunities to improve their economic analysis and research planning processes and supporting practices. Officials from our benchmark organizations noted several benefits of external evaluations, including identifying and providing support for process improvements and identifying ways to improve coordination across the organization.

The Economics Divisions Can Use Internal and External Methods to Identify Opportunities for Continuous Improvement

Improved coordination among the economics divisions can help them to share processes and increase their exposure to new planning ideas, which may lead to continuous improvements in efficiency or effectiveness. Although collegial relationships and less structured interactions among divisions are encouraged, the resulting ad hoc processes may result in missed opportunities to learn from each other. We believe that a more structured approach to sharing planning processes would not need to be overly formal or burdensome.

Additionally, we believe that external evaluations are a valuable tool the economics divisions can consider to assess, validate, and potentially further improve their planning processes for economic analysis. An external evaluation by an independent expert review panel may provide the economics divisions with suggestions to enhance certain planning processes and supporting practices. In undertaking such an evaluation, the economics divisions, together with Board governors, would have the discretion to choose (1) the most qualified and appropriate subject-matter experts and (2) the objectives and scope of review they believe would provide the most value.

When asked about the potential value of an external evaluation, an official noted that the Board already receives validation of its economic analysis and research in other ways, such as publication in peer-reviewed journals. Both current and former Board officials noted that perspectives from Board leadership on the value of initiating an external evaluation have evolved over time; however, cost-benefit concerns remain.

Recommendations

We recommend that the economics divisions' directors

5. Develop a more structured approach for sharing planning processes and supporting practices among the economics divisions to identify opportunities to enhance planning efforts.

We recommend that the economics divisions' directors, in consultation with the Board governors,

6. Consider initiating an external evaluation of certain economic analysis planning processes and supporting practices.

Management Response

In its response to our draft report, the Board concurs with our recommendations. In response to recommendation 5, the economics divisions' directors plan to meet annually to exchange best practices for planning activities. These meetings will begin the first quarter of calendar year 2022. For recommendation 6, the economics divisions will discuss the possibility of conducting an external review by the fourth quarter of calendar year 2021. In addition, the economics divisions will initiate a new approach to learn about the policy planning best practices of peer organizations through periodic outreach. The economics divisions plan to begin this outreach by the fourth quarter of calendar year 2021.

OIG Comment

The planned actions described by the economics divisions appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Appendix A: Scope and Methodology

This evaluation assessed the economics divisions' processes to plan certain economic analysis and research activities and identified opportunities to enhance the effectiveness of those processes. The scope of the evaluation included the planning processes and supporting practices for recurring and nonrecurring economic analysis conducted by the Board's four economics divisions—R&S, MA, IF, and FS—but did not include independent research.

To assess the economics divisions' planning processes for economic analysis, we reviewed available planning documentation and interviewed current and former division leadership from each of the four divisions as well as each of the Board governors at the time fieldwork was conducted. We also interviewed eight principal economists and seven current and former section chiefs from the four economics divisions, current and former special advisors to the governors, and economic analysis and research officials from two Reserve Banks to gain their perspectives on planning activities for economic analysis.

To identify common planning practices for economic analysis that could be considered by the economics divisions, we

- conducted a review of relevant reports and guidance, including publicly available external evaluations of other central banks and international banking organizations,²⁹ enterprise risk management and internal control guidance (for example, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*), and federal performance management guidance
- benchmarked with three central banks, two international banking organizations, and one federal agency within the U.S. Federal Statistical System
- reviewed documents provided by the economics divisions and by our benchmark organizations

To identify opportunities to enhance the effectiveness of planning processes for economic analysis, we analyzed (1) documentary and testimonial evidence from our benchmark organizations and (2) information gleaned from our review of relevant reports and guidance.

To help inform our evaluation, we procured the consultative services of Eric Swanson, a PhD economist at the University of California, Irvine, who has subject-matter expertise in macroeconomics and macrofinance, as well as expertise in the management and administration of an economic analysis and research program in a central bank environment.

We conducted our fieldwork from September 2019 through May 2020. We performed our evaluation in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

²⁹ The publicly available external evaluations we reviewed included those of the Bank of Canada, the Bank of England, the Banque de France, the Deutsche Bundesbank, the European Central Bank, the International Monetary Fund, and the Bank for International Settlements, among others.

Appendix B: Management Response



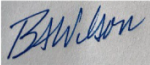
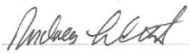

February 9, 2021

Dear Mr. VanHuysen,

On behalf of our four divisions, we thank you for the opportunity to review and comment on the draft report by the Office of Inspector General (OIG) on *The Board Economics Divisions Can Enhance Some of Their Planning Processes for Economic Analysis*. We appreciate the efforts and time that the OIG spent to develop recommendations to improve our planning processes. We value your objective and independent viewpoints and consider our OIG to be a trusted source of informed, accurate, and insightful information. In addition, we thank you for the professionalism and courtesy that the OIG staff demonstrated throughout this review. The economics division staff appreciated the opportunity to work with the OIG staff to improve our planning processes.

There were five findings in the report with six recommendations. We broadly agree with the recommendations offered and have provided comments for each recommendation on the following pages.

Sincerely,

			
Beth Anne Wilson Director, International Finance	Andreas Lehnert Director, Financial Stability	Trevor Reeve Director, Monetary Affairs	Stacey Tevlin Director, Research & Statistics

Recommendations and Responses

- 1) *Consider and implement new approaches to more consistently communicate division plans and priorities for economic analysis with Board governors.*

The divisions agree that it would be helpful to improve the communication of division plans and priorities for economic analysis with Board governors. To this end, in coordination with the Board governors, the divisions will explore setting up an inter-divisional webpage on which governors will be able to readily access each division's plans and priorities. This website will make division plans and priorities available to the governors by the fourth quarter of 2021.

- 2) *Consider and implement new approaches to gathering governor feedback on their nonrecurring economic analysis outputs and communicating that feedback to staff. As part of this effort, consider clarifying the roles and responsibilities of special advisors with respect to obtaining and communicating governor feedback, as appropriate.*

The divisions agree that it would be helpful to increase the amount of feedback from Board governors to the staff. Consistent with the governors' time constraints, the division directors or their delegates will meet with the governors at least once a year with the explicit purpose to gather feedback to be communicated to the staff. By being deliberate about gathering feedback, we can improve the consistency of delivering feedback to staff. The first of these meetings will be scheduled by the third quarter of 2021. The special advisors will continue to provide feedback to staff as appropriate.

- 3) *Consider and adopt additional methods to communicate the economics divisions' plans and priorities for economic analysis to staff within and across the economics divisions.*

The divisions agree that it would be helpful to improve the communication of the divisions' plans and priorities for economic analysis to staff within and across divisions. After meeting with the OIG, the Division of Financial Stability made its strategic plan available to division staff. By the fourth quarter of 2021, all four divisions will display their plans and priorities more prominently on their intranet sites so that staff within the division can easily access these plans. The plans will also be made accessible to staff in other economic divisions through an intranet site.

- 4) *Consider and adopt methods to gauge economists' time spent among activity types at the division level.*

Consistent with the OIG's favorable view of the staff survey done by the Division of International Finance, the other economics divisions plan to conduct similar surveys on a periodic basis. The Division of Monetary Affairs conducted such a survey in December 2020-January 2021, and the Divisions of Research and Statistics and of Financial Stability plan to administer surveys by the fourth quarter of 2021. In addition to providing useful within-division information, gathering similar information should allow for cross-division comparisons, which should support our planning processes.

- 5) *Develop a more structured approach for sharing planning processes and supporting practices among the economics divisions to identify opportunities to enhance planning efforts.*

The division directors agree that it would be helpful to exchange practices and processes around division planning to ensure that all divisions benefit from common best practices. The directors of the four divisions agree to meet annually, starting in the first quarter of 2022, to exchange views on this topic.

- 6) *Consider initiating an external evaluation of certain economic analysis planning processes and supporting practices.*

The divisions will discuss the possibility of conducting an external review by the fourth quarter of 2021. In addition, because any external review of policy-related analysis might compromise sensitive and/or confidential information, we plan to initiate a new approach to learn about best practices elsewhere. In particular, the Division of International Finance will reach out to foreign central banks and other peer institutions (for example the International Monetary Fund and the World Bank) to inquire about their best-practice policies in terms of policy planning. In addition, the Division of Financial Stability will reach out to domestic institutions that have economic research groups like the Office of Financial Research, the Securities and Exchange Commission, and the Census Bureau. Such an approach would both respect our needs for confidentiality, while also exposing us to best practices outside of the institution. We will begin this program by the fourth quarter of 2021 and plan to maintain it in coming years.



Abbreviations

FOMC	Federal Open Market Committee
FS	Division of Financial Stability
IF	Division of International Finance
MA	Division of Monetary Affairs
R&S	Division of Research and Statistics

Report Contributors

Chris Lyons, OIG Manager, Management and Operations
Ann Wilderman, Project Lead
Melissa Fortson, Auditor
Shaundace Lewis, Auditor
Andrew Luckman, Auditor
Eric Shapiro, Auditor
Timothy Rogers, Senior OIG Manager for Management and Operations
Michael VanHuysen, Associate Inspector General for Audits and Evaluations

Contact Information

General

Office of Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551

Phone: 202-973-5000
Fax: 202-973-5044

Media and Congressional

OIG.Media@frb.gov



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OIG Hotline
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551

Phone: 800-827-3340
Fax: 202-973-5044