

Office of Chief Financial Officer

01-05

January 24, 2002

The Honorable Michael M. Reyna
Chairman of the Board and
Chief Executive Officer
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Mr. Reyna:

The Office of the Inspector General completed an audit of the Office of Chief Financial Officer (OCFO) at the Farm Credit Administration. The objective of this audit was to evaluate whether the Office of Chief Financial Officer is operating efficiently and determine whether initiatives to improve the office have been effective.

We found that the implementation of the Federal Financial System is a promising step toward improving the OCFO efficiency. However, OCFO still lacks key elements to ensure the office is operating in the most cost effective manner. Specifically, the Chief Financial Officer is not effectively managing staff, the OCFO is not issuing financial products timely and funds are wasted on products and services. As a result, in FY 2001 OCFO expended approximately \$196,000 in questioned costs and \$49,000 in funds be put to better use.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General for audits of Federal organizations, program, activities, and functions. We conducted fieldwork from August 16, 2001 through November 16, 2001. We provided a draft report to management on December 6, 2001. We conducted an exit conference and discussed the draft report with the Chief Financial Officer and the Audit Followup Official on December 12, 2001. Where actions were presented to the Office of Inspector General that would resolve audit findings, the recommendation was changed to agreed upon action.

If you have any questions about this audit, I would be pleased to meet with you at your convenience.

Respectfully,



Stephen G. Smith
Inspector General

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BACKGROUND

The Farm Credit Administration (FCA or Agency) is an independent Federal financial regulatory agency. FCA has regulatory, examination and supervisory responsibilities for the Farm Credit System banks, associations, and related institutions. FCA employs fewer than 300 people. Personnel costs account for about 81 percent of the Agency's \$37 million Fiscal Year (FY) 2001 budget.

Office of Chief Financial Officer

The Office of Chief Financial Officer (OCFO) provides financial services to the FCA and other customers, in accordance with laws, regulations and professional standards applicable to Federal entities. OCFO operational costs were approximately \$2.2 million in FY 2001. The OCFO goals and objectives include:

- Developing and implementing financial management policies and practices; and providing financial management oversight.
- Preparing and submitting timely and accurate financial reports and statements.
- Performing daily accounting duties timely and accurately.
- Implementing, maintaining and enhancing financial management systems that meet Federal standards and support on-going financial operations.
- Developing and maintaining planning and budgeting policies and procedures.
- Providing financial management guidance to the FCA Board, Chairman and management.

OBJECTIVES AND SCOPE

The objectives of this audit were to evaluate whether the OCFO was operating efficiently and determine whether initiatives to improve the office have been effective. We interviewed OCFO staff, reviewed measures for determining staff size, benchmarked OCFO operation against another Federal agency, discussed with Board members financial products received, and reviewed contracted services. We also reviewed the goals and objectives of recently implemented initiatives.

FINDINGS AND RECOMMENDATIONS

Implementation of the Federal Financial System (FFS) is a promising step toward improving the OCFO efficiency. However, OCFO still lacks key elements to ensure the office is operating in the most cost effective manner. Specifically, the Chief Financial Officer (CFO) is not effectively managing staff, the OCFO is not issuing financial products timely and funds are wasted on products and services. As a result, in FY 2001 OCFO expended approximately \$196,000 in questioned cost and \$49,000 in funds be put to better use.

Federal Financial System

In FY 2000 FCA determined the financial management system, Federal Financial Assistant (FINASST), did not substantially comply with the Federal Financial Management Improvement Act. As a result, FCA contracted with the Department of Interior, National Business Center to replace FINASST. The National Business Center uses Federal Financial System (FFS or system) to process FCA financial transactions. In October 2000, the OCFO began implementing the FFS to

support all the core accounting systems including budget execution, accounts payable, disbursements, purchasing, travel, accounts receivable, general ledger, document tracking and external reporting. OCFO worked aggressively to implement the system and as a result the system was in production in June 2001. During the short time the FFS has been in production, office efficiency has improved. For example, the time necessary to process travel vouchers and disbursements is reduced significantly, resulting in less overtime work. In addition, financial data is more reliable and the consistency in processing financial transactions has improved. OCFO plans to continue to enhance the FFS to further improve office efficiency.

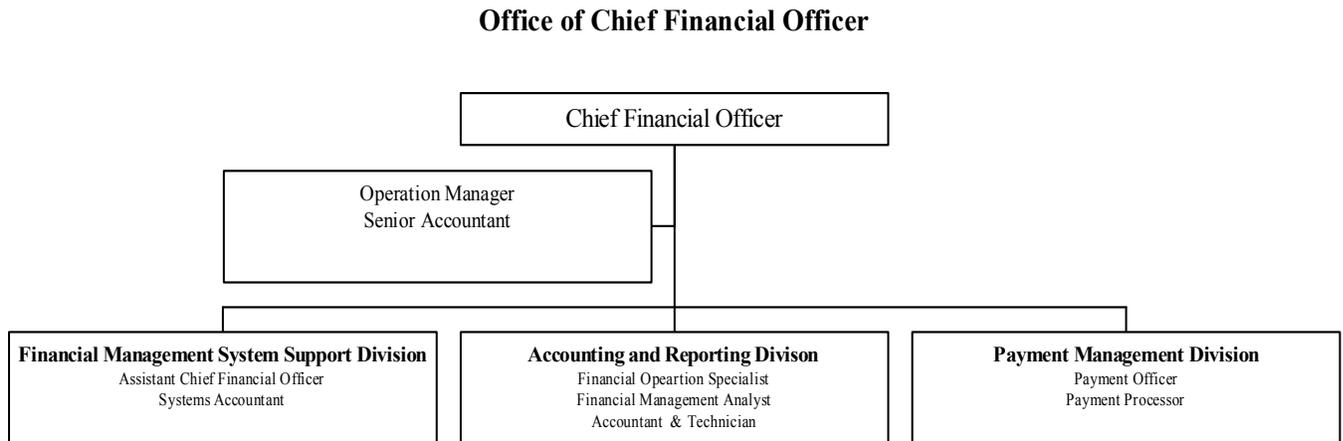
Improvements Still Needed

OCFO has realized success in producing more reliable financial data with implementing the FFS. However, other improvements are needed. Specifically, OCFO needs to:

- develop a workforce planning strategy,
- ensure staff skills are evolving to meet office goals and objectives,
- improve the disparity of staff workload,
- improve the communication between management and staff personnel,
- provide timely financial data to Board members and FCA management, and
- manage expenditures more efficiently.

Workforce Planning Strategy

OCFO does not have an effective strategy to determine the number of employees needed to carry out its goals and objectives. OCFO is organized into three major divisions, financial management support, accounting and reporting and payment management. Currently, OCFO has eleven employees. For FY 2002 OCFO has budgeted for 13 full-time equivalents (FTE) costing approximately \$1.2 million. The organizational chart below shows office organization.

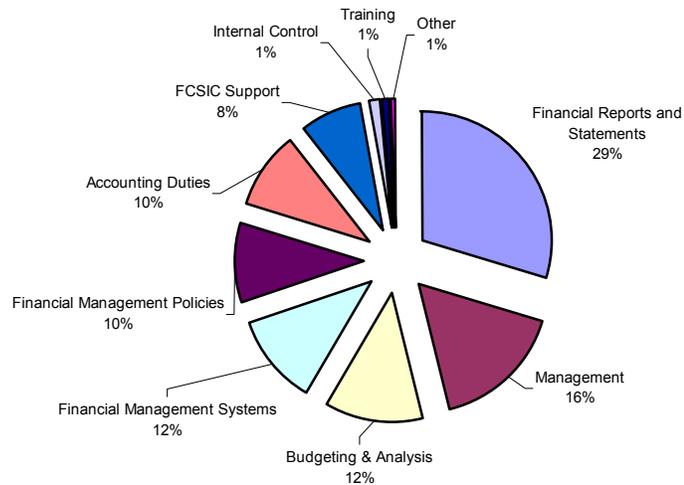


According to the CFO, FTEs are determined based on workload observations and skill weaknesses. For example, the CFO identified weaknesses in system accounting and financial statement preparation, therefore two additional FTEs were requested in the FY 2002 budget. Although OCFO may lack skills in these areas, it is questionable whether OCFO workload justifies additional employees. During OCFO staff interviews, several employees stated they were under-utilized. In addition, the CFO stated some employees are under-utilized because they lack the skills and knowledge necessary to perform work needed. Consequently, increases in staff level

are based on office skill shortfalls versus the appropriate number of competent people needed to meet office goals and objectives.

The Time Recording System (TRS) tracks the time employees spend on various projects. The data in the TRS indicates OCFO recorded 2,349 staff days on projects other than leave in FY 2001. Staff recorded time on various projects is as follows.

OCFO Time Spent on Various Projects



The chart shows the following:

- OCFO staff spends approximately 30 percent of their time on financial reports and statements. The need for more staff on this task is questionable.
- Eight percent that is currently devoted to Farm Credit System Insurance Corporation (FCSIC) support will be freed up after January 2002. FCSIC will be obtaining services directly from the National Business Center at a significantly lower cost. According to the TRS records, an employee expended 62 percent of his time doing FCSIC support work in FY 2001.
- Only 1 percent of OCFO time was spent on training. This level of training is extremely low given the CFO's assessment of employees' skills.

To better assess the number of FTEs needed for finance and accounting operations, we compared OCFO organizational structure to the Commodity Futures Trading Commission's (CFTC) finance and accounting department. The CFTC is an independent agency with the mandate to regulate commodity futures and option markets in the United States. CFTC receives appropriated funds. CFTC implemented the FFS and travel manager in 1999. CFTC financial products parallels OCFO. The comparison of the finance and accounting function is as follows.

Description	FCA	CFTC
Number of FTEs	284	500
FY 2001 Budget	\$37 million	\$68 million
Finance and Accounting Staff Level	11	7
Contractors cost	\$196,000	None

The comparison shows that even though CFTC has a larger number of employees and a significantly larger budget its finance and accounting staff level is significantly lower than OCFO.

OCFO personnel levels in the upcoming years will change based on technological advances providing opportunities for efficiencies in carrying out OCFO goals and objectives. Therefore, the CFO needs to develop a workforce planning strategy to systematically and comprehensively assess its human capital requirement. The workforce planning strategy should identify the skills and knowledge needed to meet office goals and objectives and determine the number of staff needed to possess such skills and knowledge. Further, the CFO workforce planning strategy should address gaps in employees' skills and knowledge to competencies needed. In addition, based on the workforce planning strategy, the CFO should re-evaluate job positions and ensure they fit the organization's need. The evaluation should include making adjustments to incorporate new job requirements and removing outdated requirements. Without the workforce planning strategy the CFO's current method of determining FTEs can result in overstaffing.

Agreed Upon Actions

- 1) The CFO should develop a workforce planning strategy to include the following:**
 - a. identify the current and future skills and knowledge needed to meet office goals and objectives.**
 - b. identify the number of employees needed to possess the skills and knowledge identified.**
 - c. a workforce profile identifying the OCFO personnel skills and knowledge.**
 - d. compare the skills and knowledge needed to workforce profiles and integrate a strategy for how OCFO will allocate staff.**
- 2) The CFO should ensure staff accurately records time in the time reporting system to make it a useful management tool for workforce planning.**
- 3) The CFO should redesign the organizational structure based upon a complete review of all job requirements. The review should include a re-evaluation of all job position descriptions to incorporate new job requirements and eliminate outdated job requirements.**

Staff Skills and Workload

OCFO faces a challenge in developing a workforce that has the specialized skills and knowledge required to accomplish office goals and objectives. According to the CFO, a significant portion of OCFO employees lacks the technical skills necessary to meet office goals and objectives. The CFO stated there is no longer a need for data entry accountants; instead accounting personnel need to be proficient in system accounting and data analysis. The CFO feels employees, who for a long period of time have worked at FCA, have not adequately developed their skills to keep up with the changing financial environment. As a result, their skill levels are not where they need to be to meet office goals and objectives. OCFO employees' technical skill gaps may be the consequences of the lack of office continuity. In the past five years, FCA's accounting and finance division has had six management changes and implemented three different financial management systems. Continual changes such as these can result in a lack of systematic means for assessing workforce needs and as a result can significantly impact employees' skill development.

Although the CFO recognizes there are employee skill problems, the CFO does not have a strategy to resolve the problem. According to the CFO, employees work according to their capabilities. Therefore, the CFO places more responsibilities on employees he feels can get the job done. This results in some employees being under utilized and some employees overworked. In FY 2001 six employees worked almost 500 hours of overtime, with one employee working 198 hours of overtime. We discussed with OCFO employees their duties and responsibilities. Several employees stated because there is a perception in the office that certain people cannot do certain work there is a workload disparity. Employees stated they tried to reduce the workload disparity by asking the CFO for work and offering to help other employees with their workload. However, the CFO has not been responsive to their requests and employees are unwilling to share their work. The CFO stated the current workload environment would remain until there are personnel changes either through reassignment or retirement. The CFO comments are fostering a lack of trust in the office resulting in pitting one group of employees against another and causing employees to be reluctant to share work.

OCFO employees need strong continuous leadership dedicated to helping them develop their skills and knowledge. The CFO needs to develop a training strategy that will improve employees' knowledge in areas where the office lacks technical skills. In addition, the CFO needs to monitor the effectiveness of the strategy and foster an office culture of continuous learning. Through initiatives such as cross training, employees can learn from each other and share job responsibilities. This promotes a teamwork environment resulting in employees feeling valued, appreciated, trusted and respected. Together the CFO and employees must be proactive in improving weaknesses in office efficiency.

Agreed Upon Actions

- 4) *The CFO should develop a training strategy identifying the critical skills and training needed to support the workforce planning strategy and meet office goals and objectives. At a minimum the strategy must include:***
 - a. reviewing and approving individual development plans to ensure that training is linked to critical skills needed.***
 - b. monitoring training to ensure training received is effective and applied on the job.***
 - c. counseling each employee by discussing employee expectations and ensuring work assignments promote growth and development.***

- d. ***establishing a cross training plan that provides developmental opportunities to help employees build their competencies in areas where the office lacks skills or needs backup staff.***

Office Communication

A considerable portion of employees interviewed stated the CFO does not communicate with office employees. Therefore, they are unclear on office goals, objectives and workload. Employees stated they would like to have regular staff meetings to discuss office plans, extra help needed, and problems or progress with the FFS. According to the CFO, information discussed at previous staff meetings was not relevant to the entire office, therefore the CFO discontinued the meetings.

Given the office is experiencing problems with employee skills and staff workload, staff meetings could be an effective tool to address these issues. The lack of communication contributes to the lack of skill development of the staff. In addition, with the recent implementation of the FFS, staff meetings would be useful to address system concerns and goals. The CFO can establish an agenda for the meetings; limit discussion time on various issues; and meet biweekly or monthly. If properly planned, staff meetings are a positive forum for communicating office issues and can be helpful to management and staff.

Agreed Upon Action

- 5) ***The CFO should develop a forum where management direction and employees' concerns are communicated and addressed.***

Financial Services

The main mission of OCFO is to provide timely financial services to FCA. Board members and management rely on timely data to make informed business decisions. Currently, OCFO is experiencing problems with producing reports from the FFS and as a result are not always able to provide Board members and FCA management with timely financial data. For example, according to Policy Statement 64, "Rules for the Transaction of Business and Operational Responsibilities of the Farm Credit Administration Board", Board members are to receive financial data on reallocation of funds over \$25,000 and procurements over \$100,000. To further enforce this policy, in a letter dated October 20, 2000, the Chief Operating Officer stated the CFO would provide these reports and a budget variance report monthly. To date, the CFO has not provided the reports monthly because there are problems with the FFS producing the reports. OCFO is working on fixing the problem however; the CFO could not give a definite date when Board members would be receiving monthly reports. As a result, Board members make budget decisions without prescribed financial data.

The FFS does have a report table listing various system reports. However, according to the CFO the report table is not very useful in providing information for the Board members or management. In addition, OCFO has Crystal Report, a software package that is used with the FFS, to generate ad-hoc financial reports. CFTC successfully uses Crystal Report to generate management financial reports. According to OCFO Assistant Chief Financial Officer, who is the system administrator, Crystal Report is used to generate FCSIC financial reports. However, FCA financial reports are not generated using Crystal Report due to security concerns and implementation problems. In cases where OCFO is not able to provide Board members and management with timely financial data, alternatives should be considered to ensure business decisions are made with appropriate financial information. Exploring alternatives will ensure Board members and managers have adequate information to make sound business decisions.

Agreed Upon Action

- 6) *The Chief Operating Officer should establish accountability by reflecting adherence to Board Policy in the CFO's performance plan and performance evaluation.***

Expenditures

In FY 2001, OCFO has expended approximately \$196,000 in questioned cost and \$49,000 in funds be put to better use. Specifically, OCFO did not maximize the \$100,000 spent for accounting services; expended \$96,000 for services possibly available in-house, and expended \$49,000 for a product and service not used.

To make the most of funds expended on contracts, contractors should not take over employees' workload. Instead resources are more effectively used if contractors assist, train and develop employees' skills. In FY 2001, OCFO used an accounting firm for five months, costing approximately \$100,000, because employees did not have the skills necessary to prepare FY 2000 financial statement. This is in addition to approximately \$378,000 spent on salaries and benefits attributable to financial reports and statements. OCFO's FY 2002 budget includes contracted services to prepare the financial statement at a cost of \$100,000. According to the CFO, the financial statement cost was included in the FY 2002 budget as a precautionary measure. In FY 2002, the CFO plans to hire an additional employee whose primary responsibility will be preparing the financial statement. The hiring of the additional employee should preclude the need for contracted services to assist with financial statement preparation. In addition, contracted services were not used to prepare FY 2001 financial statement. As mentioned previously, it is questionable whether OCFO workload justifies additional employees given some employees are under-utilized. Resources could have been used more effectively if the CFO had established a course of action such as a partnership enabling the contractor to develop employees' skills, resulting in OCFO current staff being able to do the work without the hiring of additional staff. Therefore, if contracted services are used, the contractor's statement of work should include a clause offering services to work with and train OCFO staff on financial statement preparation.

OCFO used a software consulting company for six months, at a cost of \$96,000, to develop and generate financial reports from the FFS. This was not reviewed or approved by the Information Resources Management Operations Committee (IRMOC). According to FCA Policies and Procedures Manual 900, "Information Resources Management Planning," the CFO needs to request this type of information service through the Chief Information Officer and the IRMOC. The Agency established a technology planning and investment process to ensure resources are used in the most cost-effective manner.

As part of the IRMOC review, information services are explored for new ways offices can work together and use FCA's skilled workforce efficiently and effectively. For example, the Office of Chief Information Officer (OCIO), at a much lower cost, could possibly perform the software company services. OCFO uses the OCIO to produce some FCSIC reports. However, OCFO does not use OCIO to produce FCA reports. The chart below illustrates the difference in cost to generate financial reports between the software company and OCIO.

	Hourly Rate	Hours Worked	Potential Savings
Difference between contractor cost and OCIO cost.	\$51	911	\$46,461

OCFO plans to continue using the software company in FY 2002. To minimize contracted service cost, the IRMOC should review all of the OCFO information service requests and incorporate the requests in the IRM plan as it deems appropriate.

OCFO expended approximately \$49,000 for products and services not used. In March 2001, OCFO expended \$45,575, including maintenance cost of \$7,595, for a travel manager program it has never used. According to the CFO, the office does not have the employees necessary to set-up the program. The CFO stated the program might be implemented in March 2002, however, this would depend on employee workload. The CFO also stated he included \$110,000 travel manager implementation cost in the FFS maintenance contract cost with National Business Center. The CFO did not plan for the effective implementation of the travel manager program. According to Agency policy, the CFO needs to request this type of information services through the Chief Information Officer and the IRMOC, prior to purchasing software programs, to ensure resources are used in the most cost-effective manner. In addition, prior to purchasing the program the OCFO should ensure the program could be implemented within a reasonable time. As a result of poor planning, OCFO has expended funds and is incurring maintenance cost for a program not used.

From October 2000-August 2001, OCFO paid \$3,450 for interpreter services not received. OCFO has established a purchase order to receive weekly interpreter services, for a deaf employee, for office meetings. According to the purchase order, services are automatically billed unless canceled three days before service performance. Invoices are paid automatically using a purchasing agent credit card in the Office of Chief Administrative Officer. The purchasing agent stated that unless someone in OCFO informed the Office of Chief Administrative Officer the services were not received there was no reason to question the cost. Consequently, interpreter services were not canceled in accordance to the purchase order agreement and, as a result, FCA paid invoices for interpreter services that were never received. According to OCFO, they have contacted the company providing the services and are no longer automatically billed for services.

Agreed Upon Actions

- 7) The CFO should include in the statement of work for the financial statement that employees will be trained on financial statement preparation.**
- 8) The CFO should immediately cease further work and cost associated with report development until the IRMOC reviews and approves detailed technical requests from the OCFO.**
- 9) The OCFO should submit detailed technology requests to the IRMOC for review and recommendation for all information management services. For information service request, the CFO with the assistance of the Chief Information Officer and the IRMOC will develop a cost-benefit analysis to determine the best source to obtain the service. The analysis will be part of the IRMOC recommendation submitted to the Chief Executive Officer for budget approval.**



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