March 23, 2001

Honorable Michael M. Reyna, Chairman
and Chief Executive Officer
Farm Credit Administration
McLean, Virginia

Dear Mr. Reyna:

The Office of Inspector General has completed an audit of Performance Budgeting at the Farm Credit Administration (FCA or Agency). The objective of this audit was to evaluate whether the FCA Board receives appropriate analysis and insight about offices' requested funds to enable it to make informed decisions.

Our review found that although the Agency currently creates many planning documents, a more streamlined and cohesive planning process is needed. The Agency should consolidate individual office planning documents to enable the Board to have more comprehensive information linking office resources and goals to the Agency's Strategic Plan and performance measures. We also found two areas, financial planning and human capital planning, that need to be addressed. These are important in constructing a strategic picture of where the Agency is now and what needs to be done in the coming years to accomplish its goals.

OIG and management came to agreement on 14 actions to improve the efficiency and effectiveness of FCA's planning processes. In the weeks before issuing the final draft report, we worked closely with the Office of the Chief Operating Officer (OCOO) to ensure an understanding of the report findings and the goals of FCA's planning processes. In fact, the OCOO took actions during the past month to begin implementing some of the agreed upon actions stated in the report.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General for audits of Federal organizations, programs, activities, and functions. An entrance conference was held on May 2, 2000. We conducted fieldwork from May 1, 2000 through August 30, 2000. A pre-exit management conference was held with the OCOO on December 19, 2000. On December 22, 2001 we provided an initial draft report to program officials. Additional exit conferences were held on January 29, 2001 and February 20, 2001. A final draft report was provided to management for comment on February 21, 2001. Because of the meetings held and open communication between this office and other Agency officials, changes were made to the report before the final draft report was issued. Therefore, no written management comments were received before issuing this report in final.

We thank all FCA offices for their input. If you or your staff has any questions about this audit, we would be pleased to meet with you at your convenience.

Respectfully,

Stephen G. Smith
Inspector General

Table of Contents

BACKGROUND

The Farm Credit Administration (FCA or Agency) is an independent Federal financial regulatory agency. It has regulatory, examination and supervisory responsibilities for the Farm Credit System (System) banks, associations, and related institutions chartered under the Farm Credit Act of 1971, as amended. FCA is a nonappropriated agency with a fiscal year (FY) 2000 budget of $36,883,177. System institutions are assessed for the Agency's administrative costs.

Government Performance and Results Act of 1993

All Federal agencies, including FCA, must comply with the Government Performance and Results Act of 1993 (Results Act or GPRA). The Results Act requires all agencies to provide an annual performance plan to Congress and the public. This plan should describe the agencies' major programs and activities, measures used to gauge their performance, strategies and resources needed to achieve their goals, and the procedures used to validate the performance information. We reported on FCA's progress in implementing the Results Act in a previous inspection issued March 23, 2000. This audit goes a step further by evaluating how FCA links its resources to its goals and objectives and whether the FCA Board gets enough information to make informed decisions about the Agency.

According to the Office of Chief Operating Officer (OCOO), changes in the Agency's strategic planning process may occur in FY 2001. Also, policies and procedures, and the Agency's planning calendar are being changed. We spoke with the Chief Operating Officer (COO) about these issues and she agreed the Agency should integrate the FCA budgeting process into its planning and performance management processes. We continue to have meetings with the COO and her staff on GPRA and related issues detailed in this report.

Board Expectations for Performance Measurement

The Board should communicate its expectations about Agency performance measures objectives to the COO and office directors. We recommended this in our last GPRA inspection and the Agency is creating a directive that will describe the Board's expectations. FCA has identified performance measurement as a vital link to the planning and management of resources. It is crucial that performance measures exist for Agency products and services, these measures link to the Agency Strategic Plan, and there is a balanced scorecard for each measure. Ideally, each product and service would have measures addressing 1) the degree of success in achieving the performance objective, 2) the cost related to that activity, and 3) the quality of performance, for example, customer satisfaction.

FCA's current budgeting practices do not require the inclusion of performance measurement data in budget justifications. Rather, the budget call has focused on incremental adjustments to budgets approved in previous years. Performance management has been separate from budgeting and any assignment of costs was made ad hoc, at the close of the fiscal year.

Congress and the Administration have made it clear that agencies must link budgets to performance. Office of Management and Budget (OMB) Circular A-11, Section 51, discusses how agencies should link performance goals with resource needs. It also states that agencies should include budget justification information with the relevant performance goals and indicators. In addition, OMB issued Bulletin No. 00-04 on June 6, 2000, which provides further instructions to agencies for presenting performance information with budget requests. (See Appendix 1.)

The practice of performance budgeting is not yet well established in the Federal government but is evolving in response to GPRA. OMB plans to select performance budgeting pilot agencies for the FY 2001 budget cycle. Agencies will experiment with different ways of presenting their budget requests, showing how different levels of funding would affect program outcomes. Our benchmarking of several other small agencies with similar characteristics to FCA disclosed that they did link budget amounts to performance goals. However, like FCA, agencies are linking costs to performance after the fact, in performance reports, and not as part of the budgeting process.

Larger agencies, such as the Departments of Transportation and Interior, have made progress in linking budget requests to performance goals. However, even these agencies are cross-walking their budget request justifications (i.e., budget justifications are linked to performance goals as well as by object class) until Congress is more comfortable with the performance-based format.

OBJECTIVE AND SCOPE

The objective of this audit was to evaluate whether the FCA Board receives appropriate analysis and insight about offices' requested funds to enable it to make informed decisions. The scope of the audit included benchmarking other agencies to identify their progress in implementing performance budgeting; reviewing FCA's current policies and procedures for planning and budgeting; interviewing FCA staff involved in the budget process; and researching budgeting concepts, policies and practices, including Federal guidance on GPRA.

We reviewed all FCA office budget requests for FY 2000, with supporting documentation used to justify their budget requests. We also reviewed information presented in the Board budget books for FY 1999 and 2000. We expanded our scope during fieldwork to include planning and performance measurement practices because it became obvious that information essential to the budget process was too interrelated with these activities to consider separately.

FINDINGS AND AGREED UPON ACTIONS

The Board would benefit from having relevant information about individual office performance plans at the same time they consider funding requests. Integrating the performance planning and budgeting processes (now separate) would enable the Board to confirm that each office's performance plan supports the Agency's Strategic Plan and performance objectives. By presenting budgeting requests by specific office products and services with the planned performance measures, the Board can decide whether projected costs are acceptable and if the proposed measures establish real accountability.

The Board currently receives various documents in support of individual office budgets. Those documents, however, are submitted at different times, are not cohesive and cannot be analyzed against one another because of inconsistencies in individual analysis and format. These documents include the Board budget book, office operating and performance plans, and other rationale or analysis provided by individual offices during budget presentation. The Board does not receive analysis for the Agency as a whole to assure strategic goals are addressed or cost-benefit analysis has been performed for significant expenditures.

Although budgets should continue to originate in offices, a method should exist to track costs and enable comparisons by Agency performance goals and objectives. The Agency needs to amend or create four processes to adequately capture, process and report critical information to make performance budgeting a reality: 1) a 5-year strategic staffing plan, 2) a 5-year financial management plan, 3) an improved time tracking system, and 4) a cohesive planning calendar.

5-Year Strategic Staffing Plan

About eighty-five percent of FCA's budget is for employees' salaries and benefits. Unless the Agency adequately plans and manages its human resources, it cannot significantly impact its financial or performance interests. Even though for the past two years the FCA Strategic Plan included the task of developing and implementing a 5-year strategic staffing plan, the Agency has not been successful in doing so. We believe its lack of success stems largely from the absence of information needed and the lack of uniformity of submissions by individual offices. A strategic staffing plan would be useful if it incorporated the elements listed below.

Each organizational unit should:

- document the products and services it generates;
- develop measures for determining performance in generating these products and services;
- document the ideal mix of skills and abilities for providing products and services;
- document the existing staffing profile; and
- lay out a strategy, including training, for moving from the current staffing profile to the ideal.

The individual office staffing plans should then be integrated into an Agency staffing plan that should also include Agency-wide strategies for staff development and management succession. Other objectives in the plan would include diversity, affirmative employment, equal employment opportunity goals, and other FCA initiatives to recruit and retain highly qualified personnel.

By Executive Memorandum dated June 9, 2000, President Clinton directed the heads of Executive departments and agencies to "fully integrate human resources management into your agency's planning, budgeting and mission evaluation processes, and clearly state specific human resources management goals and objectives in your organization's strategic and annual performance plans." Agencies must comply with this directive starting October 1, 2000 and yearly after that. (See Appendix 2.)

Agreed Upon Action

1. ***FCA will create a new 5-year strategic staffing plan.***

5-Year Financial Plan

Currently, there are no financial objectives included in FCA's budgeting or planning processes. For the past two years, the Agency Strategic Plan has included the task of developing a 5-year financial plan; however, there has been no action to create one. A 5-year financial plan should include all strategies for addressing budgetary issues as well as the financial management goals and objectives.

The strategic staffing plan described in the preceding section is an essential ingredient for any financial strategy. Once the staffing plan is available, the financial plan would incorporate the cost implications of staffing objectives and other strategic activities such as the Information Resources Management Plan. Further, all reimbursable costs and any projected earnings should be defined and analyzed to arrive at those revenues and document how the revenues offset Agency expenses to determine the annual assessment of Farm Credit System institutions.

The financial management plan should document all resources needed to achieve FCA's goals and objectives, all revenues that will offset costs, and the costs needed for buying and maintaining a useful and integrated financial management system. All changes to the financial management system and the operations of the Office of Chief Financial Officer (OCFO) should be included in the office's goals and strategies. The budget formulation, guidelines, and expectations should be in this financial plan and coincide with the Agency operational, strategic and performance planning.

Finally, FCA should perform an annual analysis of the Agency's overall resources. Currently, there is no Agency-wide budget analysis to determine if FCA is achieving its goals efficiently or effectively. Without performance indicators and aggregated resource usage information, there is no way to know if individual offices or FCA as a whole are fulfilling their duties and achieving goals effectively.

Agreed Upon Actions

2. ***FCA will create a linkage between its budget and performance objectives.***
3. ***FCA will create a 5-year financial plan that includes strategies for budgetary goals, financial management system goals, and resource use and needs to achieve Agency goals and objectives.***
4. ***FCA will ensure the Federal Financial System will link costs to both organizational units and performance goals.***
5. ***The 5-year financial plan will include performing analyzes that cross-walks all offices' resource use to performance goals and objectives to determine the costs of achieving office and Agency goals and objectives.***

Time Recording System

The Time Recording System (TRS) records how employees spend their time every two weeks. TRS currently tracks staff hours for the two main Agency strategic goals. Some offices use it to review historical information for certain activities such as examinations or regulation projects. However, employees work on many other objectives supporting the Agency's mission, which are not clearly represented in TRS. This is especially true for support roles that do not directly link to the Agency's two strategic goals in TRS. Further, existing time classifications are more focused on organizational hierarchy, there are overlapping categories that are cumbersome and confusing to staff, and they are not linked to identified products and services. As a result, many employees and budget preparers do not see TRS as reliable or accurate.

Since most of FCA's budget is for employee salaries and benefits, TRS is the primary vehicle for capturing costs. Making TRS more user-friendly and revising the time classifications to directly link employee time to Agency products and services would facilitate a streamlined and integrated budgeting and planning process. Other employee time that is not directly linked to products and services (leave, administrative activities, training, etc.) could be allocated to products and services through an indirect cost plan.

Agreed Upon Action

6. ***FCA will revise the time classifications in the TRS to support the goals and objectives of the Strategic Plan.***

Integrating the Agency's Planning and Budgeting Activities

Currently, there are several separate planning activities that are not coordinated with the budgeting process. Office operating and performance plans (OPP) are submitted for approval before management issues the budget call. The Agency Strategic Plan is approved the month after the budget call is issued and the Agency's annual performance plan follows approval of the

Agency's Strategic Plan. It would be more logical for an OPP to be approved with the Board knowing what resources are proposed to achieve the goals presented in that performance plan. Also, the Agency Strategic Plan should be approved and Agency performance measures established before offices frame their OPPs; otherwise, offices must develop their plans without the Board's direction on overall Agency goals and objectives.

We believe office directors considered budget implications in their proposed OPPs when they developed plans for previous years, even though those implications are not always reflected in the plans. If the Board requested offices to submit their budget and proposed OPPs (currently submitted in early spring) as a single document, the Board would have a fuller context to make decisions. There would also still be time to reconcile any differences before approving the OPPs and completing the Agency's performance plan. Further, these OPPs would be the source material, once approved, for updating staffing and financial plans to ensure Agency goals are being addressed.

As stated earlier, the OCOO intends to revise the Agency planning calendar. We think the COO should consider revising the calendar requiring offices to submit a single document that:

- identifies products and services;
- documents performance objectives for delivering each product and service;
- includes performance measures for each product and service that result in a balanced scorecard; and
- identifies resources needed to deliver each product and service.

This document should include an appendix, which cross-walks the goals and objectives to budget cost codes. By cross-walking performance goals and objectives to cost codes, FCA can combine all appendices to form an overall picture of the total resources needed to accomplish each Agency goal and objective. It would provide the Chief Financial Officer (CFO) with budgetary numbers by performance goals and objectives and cost codes. This would enable him to combine and analyze the data for presentation to the COO and Board, both by individual office and the Agency as a whole. Also, it would provide a basis for FCA to begin to look at past data in an easily comparable format, as well as provide data for the financial plan. FCA can analyze costs for both specific budgetary cost categories as well as by specific performance goals and objectives if cross-walking resources to both performance goals and objectives and to budget codes is adopted. This would also provide a ready source of information for our annual accountability report to Congress and budgetary hearings.

At the time of issuing this final report, the OCOO has taken steps to address many of the issues noted in the agreed upon actions below. The planning calendar is being revised to incorporate the consolidation of the various office planning documents and addressing the sequence of approvals. Further, a work group has been formed to address Agency planning processes, communications, linkage to the Strategic Plan and options for creating a comprehensive operating, performance and resource planning document.

Agreed Upon Actions

7. ***FCA will coordinate Agency strategic, performance, operational and budget processes for consistency and linkage to ensure Board initiatives are addressed. Also, FCA will amend the planning calendar to be consistent with the sequence of approvals of plans.***
8. ***FCA office operating and performance plans will incorporate resource allocations for each major goal and objective and will include an appendix which cross-walks costs according to goals and objectives, budget codes, and organizational units.***
9. ***FCA will link office budget requests to Agency and office goals to show the linkage of costs to expected performance outcomes in the annual budget request to Congress.***

OTHER RELATED ISSUES

Role of the Chief Financial Officer

The FCA Board has opted to comply with the Chief Financial Officers Act of 1990 (CFO Act) as a matter of policy, even though FCA is not required to do so. We believe the basis for that policy decision was rooted essentially in the Board's desire to have audited financial statements. However, the CFO Act covers many other financial matters, including a definition of the CFO's responsibilities. According to the FCA Policies and Procedures Manual (PPM) 701, the CFO is responsible for developing the Agency's budget, obtaining the Chief Executive Officer's concurrence for the proposed budget, presenting it to the FCA Board for approval and making a final review and determination on each office's submission. Although our PPM establishes these duties, in practice many have not been performed. Further, these are just a few of the responsibilities of the CFO as defined in the CFO Act and OMB Circular A-11.

FCA has recently established an OCFO. This may be an opportune time for the Agency to decide what the role of the CFO will be. The 5-year financial plan could be the vehicle to document that role as well as the specific actions taken to integrate the planning and budgeting processes recommended in this report.

Agreed Upon Actions

10. ***The CFO's role within the Agency will be more clearly defined and included in the 5-year financial plan.***
11. ***The CFO will propose new budget call procedures to reflect changes made to the Agency's planning process.***

FCA's Centralized Costs

It is difficult to analyze trends in budgets for those offices which have or still do manage costs budgeted centrally for the Agency because 1) administering costs centrally has changed from year to year, and 2) the organizational unit responsible for managing centrally budgeted funds has changed from year to year. Managing costs centrally lessens the Agency's ability to accurately track the real cost of programs. Further, when costs are budgeted and administered centrally there is less incentive by users to control those costs.

The former Office of Resources Management (ORM) historically managed most centrally administered costs. The recent reorganization eliminating ORM will most likely reduce the tendency to change responsibility for managing centralized costs. An indirect cost plan should set up a process for allocating centralized costs that will continue, as well as those staffing costs that are not linked to products and services.

There is no evidence that past budgeting presentations have included any analysis of centralized costs or services. An analysis should be performed each year to find out whether it is appropriate to continue the central administration of such costs, and whether there are more efficient or effective alternatives to providing or managing these costs or services.

Agreed Upon Actions

12. ***FCA will revise PPM 701 to require an annual review of costs budgeted centrally to assure this treatment is appropriate.***
13. ***The budget for existing centralized costs will be moved to individual offices whenever practical.***
14. ***Offices that manage centralized costs will keep those costs separate from the operating costs for their office.***

Appendices

(Call OIG on 703/883-4030 for copy of Appendices)