Federal CFO Insights
Importance of CFO/CHCO relationship in today's environment

Introduction
The harsh budget climate and the continuous demand for better service delivery are forcing federal agencies to find new ways to innovate and get smarter about how and where to spend scarce resources. Every agency's most important asset is the men and women who work every day to achieve results for the American people. But the Federal workforce is also one of the government's biggest costs — with personnel costs comprising approximately 32% of the President's FY15 budget.[1] With no end in sight for tight budgets, it is more important than ever to align workforce strategies and budgetary commitments with mission requirements. Strong collaboration between the agency Chief Financial Officer (CFO) and the Chief Human Capital Officer (CHCO) has become a business imperative as agencies strive to be responsible stewards of public funds while providing essential and quality services to the American public.

1 Deloitte analysis of OMB budget data. Calculation does not include Grants and Fixed Charges as part of the President's total budget

Case for change
Federal CFOs and CHCOs have traditionally worked in parallel, collaborating as needed rather than as part of a sustained business strategy. Given the challenges currently facing the federal government, CFOs and CHCOs must plan and work together to align their critical functions to support the achievement of their agency's strategic goals. While this may seem intuitive, there are often organizational or personal barriers to effective CFO/CHCO collaboration. While these barriers can be formidable, there are three critical reasons why CFOs and CHCOs should be working together to forge a collaborative environment:

- **CFOs and CHCOs have overlapping responsibilities:** CFOs and CHCOs have a strong stake in deciding the size and composition of their workforce. To meet its mission and satisfy Congress and the taxpayers, an agency should build and maintain a mission-ready workforce at the lowest cost to the government. CHCOs are responsible for finding the right people with the right skills, but they know the sky is not the limit when it comes to hiring and compensation. Conversely, while CFOs always have their eyes on affordability, they know that talented people can make all the difference in meeting mission needs. These differing yet complementary responsibilities demonstrate the importance of successful collaboration between CFOs and CHCOs in order to attract and retain the talent needed to meet mission needs at a sustainable cost.

- **CFOs and CHCOs are strategic partners:** It is common practice for both CFOs and CHCOs to report to the heads of their agencies. As key members of the senior leadership team, CFOs and CHCOs should have a diversified and strategic view of their agencies. CHCOs must be cost-conscious when developing workforce initiatives, just as CFOs must understand the workforce implications of budgetary decisions.

- **CFOs and CHCOs face the same challenges:** CFOs and CHCOs are both dedicated to identifying efficiencies and fostering excellence through the use of improved metrics and enhanced performance accountability. These responsibilities are more critical than ever given the current federal environment's heightened emphasis on fiscal responsibility and accountability. The growth of shared service centers is one example of how CFOs and CHCOs are actively seeking to retool their organizations to cut costs while improving overall service delivery.

Given these factors, CFOs should be asking the following **four key questions** to develop and strengthen their critical relationship with their CHCOs.

Four key questions CFOs should be asking CHCOs

1. **How can I work with the CHCO to hire and retain the right people with the right skills in the right jobs to fulfill financial management responsibilities across the entire agency?**

By law, CFOs are responsible for ensuring the audit readiness of their agencies. At the same time, more and more financial planning and analysis is being conducted by program offices instead of by the CFO's office. This trend towards decentralized financial management demonstrates the importance of having more staff with strong financial skills and capabilities. In support of this, CFOs should be closely coordinating with their CHCOs to identify organizations that require financial and budgeting skills and develop competency models for the types of financial professionals needed. CFOs can be an invaluable resource to their CHCOs when it comes to advising on the precise knowledge, skills, and abilities that will foster strong financial planning and analysis across the agency.

2. **How can the CHCO and I provide our agency's senior leaders with reliable, up-to-date personnel data to help them make better informed decisions?**

Many federal agencies still operate with separate financial and personnel systems, resulting in discrepancies between budget and headcount information. To provide leaders with consistent and thorough advice, CFOs and CHCOs must draw conclusions and develop recommendations from the same accurate and complete data set. Linking data from the financial and manpower systems provides more accurate data that can enable leaders, including CFOs and CHCOs, to make smarter decisions. It can also improve the agency's audit readiness, which is especially important given the heightened scrutiny agencies are facing in today's tough fiscal environment. A key is to ensure data accuracy at the point of entry into the system. Developing automation and workflow tools for the most critical and data-intensive processes can improve efficiency and effectiveness and enable additional insight into the workforce that better enables data-driven decision-making. Additionally, CFOs and CHCOs should work together to ensure that their agencies have the ability to compare budgeted costs to actual costs incurred during budget execution. Tracing costs back to specific positions will increase the accuracy of future budgeting. For example, if an organization budgeted for four engineers but found it was able to meet its mission with only three, the following year's budget can be adjusted accordingly and the extra funds invested in other programs.

3. **As more and more agencies manage programs by portfolio, how can I work with the CHCO to ensure that our agency strategically invests in programs that will enable us to meet our mission?**

As agencies continue to move towards a portfolio management model, they will need governance structures to help prioritize program funding along with tools and procedures to manage program risk. CFOs and CHCOs can help senior leaders understand the financial and human capital benefits and risks of investment and divestment options. For example, not all position reductions are created equal. Reductions in hard to fill jobs may have serious long term consequences that could be avoided by reducing less competitive positions. Additionally, CFOs and CHCOs have a shared interest in making sure that every dollar spent delivers a demonstrable solid return on investment and contributes to the achievement of mission priorities. For example, the CFO and CHCO at one federal agency used data analytics to show a positive return on a multi-million dollar training investment through reduced turnover, faster processing times, increased productivity, and substantial cost avoidance. These findings not only demonstrated the value of the training but also allowed the agency to justify its investment to Congress.

4. How can the CHCO and I work together to ensure the agency has the right size workforce with the right skills to achieve our mission today and in the future?

In a financially constrained environment, effective workforce planning is essential to build and sustain a mission-ready workforce at the lowest cost possible. As the experts on their agencies' budgetary and workforce needs, CFOs and CHCOs are key to this effort. Their collaboration ensures that financial investments in recruiting, hiring, training, and professional development strategies align with the overall agency strategy. Recently, a large Cabinet-level agency realized the benefits of workforce planning as part of its efforts to establish and sustain a skilled workforce. The CFO and CHCO relied on a supply analysis of the current workforce and a demand analysis of future needs to identify the people and skills needed today and in the future for the agency's mission-critical occupations. To realize similar benefits, CFOs and CHCOs can consider activities such as strategic workforce planning and cost modeling, increased utilization of workforce flexibilities, and broader workforce shaping strategies. They can also collaborate to determine the most effective strategy for meeting staffing needs. For example, there can be significant cost-savings if an agency brings in contractors to provide surge support, rather than hiring new government employees. Similarly, it is often cheaper to reskill existing employees when possible instead of bringing in new employees.

Conclusion

With the challenges they face today, federal agencies cannot afford to have their people and budgetary strategies out of sync. Agency leaders will likely make better, smarter decisions for customers and employees alike when the CFO and CHCO utilize the same data, rely on the same measures of success, and coordinate closely on agency strategy. Collaboration between the CFO and CHCO not only makes good business sense, it helps set the tone for the kind of strategic senior level partnerships that are the hallmark of effective organizations.

Primary contacts

Pat Nealon
Director
Deloitte Consulting LLP
+1 571 882 6060
pnealon@deloitte.com

Kristine Korva
Principal
Deloitte Consulting LLP
+1 571 882 7302
kkorva@deloitte.com

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Deloitte *Federal CFO Insights* are developed with the guidance of Roger Hill, Principal, Federal CFO Program Leader, Deloitte & Touche LLP; and Philippe Podhorecki, Manager, Federal CFO Program, Deloitte Consulting LLP

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