SURVEY SERIES

The COVID Challenge: CFO Views on Organizational Resiliency in Pandemic Conditions

July 2021

AGA®

Report Contributors

Grant Thornton

Tony Scardino, Managing Principal
Phil Kangas, Principal
Robert Shea, National Managing Principal, Public Policy
Sara Mehretab, Senior Associate
Adriana McDevitt, Associate
Emily-Grace Finnell, Senior Associate
John O'Connor, Manager

AGA

Ann Ebberts, CEO
Susan Fritzlen, COO
Lyndsay McKeown, Marketing and Graphics Manager

AGA is proud to recognize Grant Thornton for supporting this effort.

Grant Thornton Public Sector helps executives and managers at all levels of government maximize their performance and efficiency in the face of ever tightening budgets and increased demand for services. We give clients creative, cost-effective solutions that enhance their acquisition, financial, human capital, information technology, data analytics and performance management. Our commitment to public sector success is burnished by a widely recognized body of thought leadership analyzing and recommending solutions to government's greatest challenges.

Based in the Washington, D.C., metropolitan area, with offices in Alexandria, Virginia.; Austin and San Antonio, Texas; Tallahassee, Florida; and Los Angeles and Sacramento, California; Grant Thornton Public Sector serves federal, state, local and international governments. For more information, visit grantthornton.com/publicsector.

AGA is *the* member organization for government financial management professionals. We lead and encourage change that benefits our field and all citizens. Our networking events, professional certification, publications and ongoing education help members build their skills and advance their careers.

AGA's Corporate Partner Advisory Group is a network of public accounting firms, major system integrators, IT companies, management consulting firms, financial services organizations, and education and training companies. These organizations all have long-term commitments to supporting the financial management community and choose to partner with and help AGA in its mission of advancing government accountability.

Table of Contents

Introduction

Grant Thornton Public Sector, in partnership with the Association of Government Accountants (AGA), conducts an annual survey of the Chief Financial Officer (CFO) community in federal and state governments. Throughout this year, the CFO Survey will be iterative, published as a series of articles with timely and topical insights. Our theme for the 2021 fiscal year is: COVID-19 Impacts on the CFO.

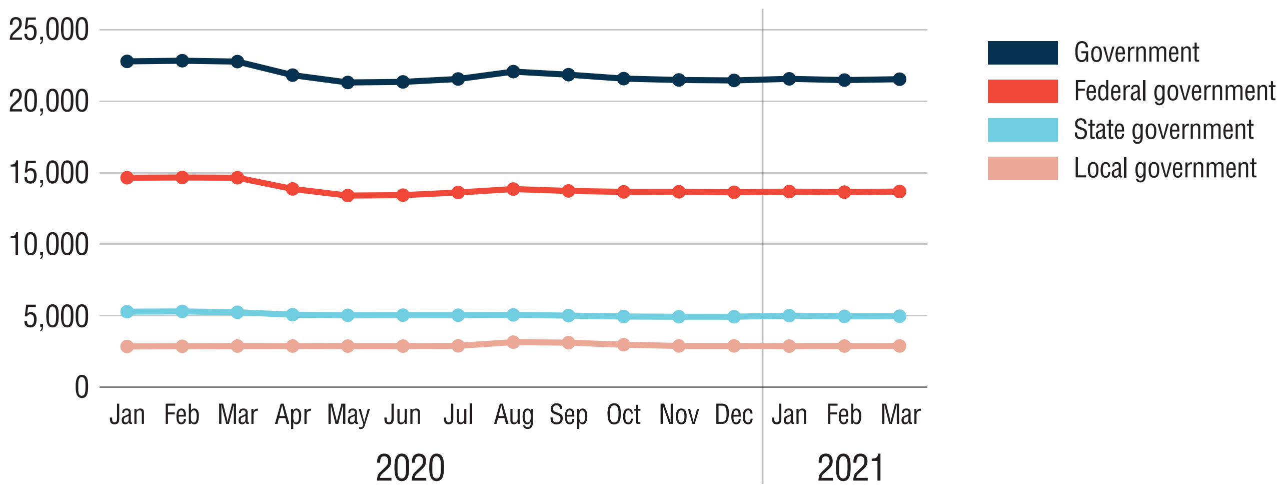
The following is the second article in the CFO Survey Series, entitled, "The COVID-19 Challenge: CFO Views on Organizational Resiliency in Pandemic Conditions." It addresses input collected during a series of interviews completed in March – April 2021. Any significant changes (e.g., legislative, health response, etc.) that occurred after April 2021 were not considered in this report

Over a year into the pandemic caused by COVID-19 and after $5 trillion in stimulus funding was released through six major pieces of legislation, CFOs face a new challenge -- making long-term decisions for the 'new normal,' meaning the post-pandemic future of work. In the first article in our COVID-19 CFO Survey Series, federal and state CFOs and budget officers described the ways they moved to respond, restore and resume finance operations, as well as monitor and disburse more than $2.6 trillion in funds related to the pandemic. The leadership demonstrated by the CFO community extends well beyond financial management (FM). In this report, Grant Thornton and AGA explore the methods used by public sector CFOs to build resiliency in their organizations and make decisions in the wake of the crisis.

To better understand the challenges and the measures CFOs are using to approach them, Grant Thornton conducted nearly a dozen interviews with federal CFOs and FM executives in large and small federal agencies.

Job loss and unemployment in various sectors have been well documented throughout the past year. **Figure 1** shows the relative stagnancy of federal and state government employment levels since January 2020, as well as a slight dip in local government employment in March 2020 and a rebound by June 2020[i].

Figure 1: Government Employment Levels



With a largely consistent, and now predominantly remote workforce, agencies face new considerations that have only emerged as they recognize the 'new normal' is more than an organizational limbo that must be managed until offices re-open and employees return to their desks. Thus, agencies look to CFOs for guidance as they make lasting financial decisions with a financial impact. Among the numerous decisions CFOs face, Grant Thornton narrowed the survey to these key areas:

Workforce. From meeting deadlines to hiring and onboarding employees, agencies must adjust policies and workplace expectations toward a positive, productive culture. However, some looming questions remain:

- To what degree is remote work here to stay?
- How can productivity, morale and employee welfare thrive?
- To what extent are hidden costs awaiting payment?

Real Estate. Arguably the most enduring decision CFOs face right now concerns real estate and an agency's footprint for physical office space. Since many office buildings remain relatively empty, many CFOs question holding on to costly real estate expenses. Rent is the obvious cost factor, but post-pandemic considerations may require additional line items:

- Will the full workforce ever return to small offices or shared workspaces?
- Will facility cleaning costs increase with sanitary requirements?
- What effect will a reduction in office space have on an agency's workforce?
- Will flexibility to work in any part of the country increase with more telework?

Information Technology (IT). The inter-connectivity of finance and technology continues to develop, strengthened by an enlarged remote workforce during the pandemic. But the situation begs some questions which will lead to a host of significant decisions, including:

- Should agencies continue to invest in platforms and equipment for better capabilities in remote work?
- If so, how?

Organizational Resiliency. COVID-19 proved that identifying and managing risks across an enterprise (ERM) is more than a compliance exercise. CFOs must address numerous questions:

- How does the agency identify and manage risks?
- To what extent has COVID-19 highlighted the importance of ERM to support mission delivery?
- Which new risks did COVID-19 expose?
- How does the knowledge of present risks help agencies plan for possible major disruptions in the future?

From the answers to these and other questions, Grant Thornton identified general trends among the CFOs and noted innovative approaches taken during decidedly uncertain times. Each key area concludes with recommendations and best practices for the mission support community in the "new normal."

Workforce

Seemingly overnight, CFOs uprooted their operations from government office buildings and replanted them in their living rooms and dens. As one CFO put it, “We have gone from a 3D to a 2D world.” How did this change affect the FM workforce?

Productivity: The majority of CFOs reported minimal to no decline in productivity during the shift to a virtual work environment. Agencies with existing telework arrangements and agencies in the process of shifting to telework-friendly policies found it easy to transition when the pandemic began. Even those agencies without an existing telework structure managed to transition to a work-from-home environment with minimal disruption.

A common theme among CFOs was the importance of managing toward the deliverable and the results instead of managing people. The focus on requirements helped CFOs give their staff flexibility in balancing work life and home life. Although work and home became co-mingled, the approach ensured tasks were completed on time.

While productivity did not deteriorate significantly, some CFOs noted that quality declined - especially in agencies that were inexperienced with the telework model. Also, telework changed the way employees interacted with their colleagues and teammates. Before the pandemic, they could ask questions or touch base to review the quality of deliverables as they walked by someone’s desk or met in a conference room. During COVID-19, agencies encountered a need to create more conscious and formal channels to maintain quality. One agency implemented a quality assurance process and held regularly scheduled operational reviews. By making conscious and diligent efforts to manage and discuss deliverables, the action helped improve the quality of work.

Onboarding & Culture: Any employee onboarding into a new role faces a set of challenges. While CFOs observed few issues with the virtual onboarding process, several noted the struggle for new employees to form interpersonal connections in the virtual environment. One CFO confessed to maintaining very weak ties with new hires as the organization constantly tries to assess how it is onboarding and acclimating new employees and how they can introduce them into the organizational culture. The same organization achieved success by increasing the frequency of check-ins – they asked managers to reach out to their team members every day.

Another CFO noted an increase in the use of their buddy system in the virtual setting. To overcome the struggles in forming connections, a number of agencies implemented buddy systems. By partnering new employees with existing staff and making use of video calls with leadership, CFOs said new hires were more easily familiarized with their teams.

The shift to a virtual workforce highlighted the value of a positive work culture on employee wellbeing and resiliency. Leadership and staff discovered a need for more deliberate goals and actions to keep the office culture alive. During the period studied, CFOs actively built employee morale through regular check-ins, coffee chats, all hands meetings, and social hours to develop cultural connections.

Personal and Professional Development: CFOs took several actions to support their employees' personal and professional development. In the area of personal development, some agencies allowed more flexibility for leave time. With increased number of available work hours, largely because employees had nowhere to travel, CFOs sensed employees should be able to use the earned time off in other ways. One agency expanded core business hours to offer employees more flexibility to balance work and family responsibilities. When employees felt the support of their leadership, they became willing to pay it back in kind.

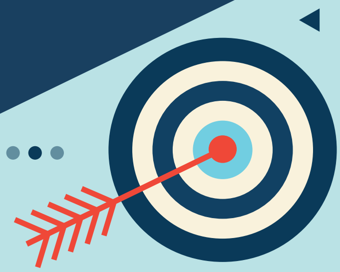
Prior to the pandemic, agencies were beginning to see a demographic shift in the federal workforce that continued during the pandemic. Several CFOs highlighted the importance of nurturing leadership skills to build the next generation of talent. One agency instituted weekly employee development and leadership seminars to give staff the opportunity to increase their knowledge and skills. Another financial executive found that tapping into professional organizations, such as AGA, reduced employee isolation and gave the team access to professional development and networking opportunities despite working from home.

Future Hiring & Retention: As CFOs transition from reacting to the pandemic to planning future operations, the impacts on hiring and retention are top of mind. Many agencies foresee a hybrid telework policy, such as working in the office two days a week and working from home for the remainder. For agencies that are not geographically bound, telework offers the advantage of an expanded hiring pool. On the other hand, since most employers in the public and private sectors now allow telework, the "telework playing field," so-to-speak, is leveled. Government agencies that pioneered telework options may need to find new ways to market their advantages to potential employees against employment in the private sector.

While telework offers advantages, the idea of a new policy causes concern for many CFOs. Among the concerns are:

- Hoteling models: while a popular option pre-pandemic, will employees want to return to a shared office space?
- Workplace locations: How will agencies negotiate office settings, given factors such as locality pay, employee level (i.e., GS-7 vs GS-15), and various unknowns about returning to the office?
- Office hours: If staff members can live anywhere they like, will offices need to establish core work hours that account for time zone differences when scheduling team meetings?

> "Childcare, pet care, and family care issues are big. Some thought should be put to additional benefits such as these going forward."



Recommendations

- Sharing physical office space is not necessary for offices to work effectively. In a virtual environment, leaders should focus on managing to the deliverable and consciously building in touch points to review work products and make sure quality doesn't degrade.
- CFOs must prioritize the nurturing of interpersonal relationships and facilitating professional development opportunities, which both increase retention and build a positive culture.
- The work environment is shifting. To remain competitive, agencies must keep an open mind toward new considerations in balancing employee wellbeing with productivity and value for their agency.

Real Estate

Pre-pandemic, the consensus among CFOs was that the real-estate landscape would change; however, more than a year into the pandemic, CFOs continue to evaluate what that change means.

Restructuring Footprint: Before the COVID-19 pandemic began, agencies experienced pressure to find real estate savings GSA's Real Estate Investment and Savings Strategy prioritized footprint optimization, lease cost avoidance, and productivity in an effort to save money, optimize space, and work "smart." COVID-19 presented an opportunity to reduce the federal real estate footprint that the government had been chasing for decades.

Indeed, the pandemic delivered a strategic advantage for rethinking real estate. As one CFO stated, with employees out of the office, agencies could consider resizing the footprint with fewer logistical challenges. Even in offices where footprint reduction cannot be achieved, several CFOs indicated they are considering hoteling models and ways to increase collaboration spaces. One CFO highlighted the challenges of employee disparity, in which supervisors have their own offices and the lower-level employees are packed into tight areas. A reduction in the disparity of office configurations could help restructure the footprint, challenging the old paradigm of "X amount of square feet allowed for Y staff level." CFOs must also consider that downsizing office-space is not easily reversed. If CFOs ever wanted to bring their staff back into the office, they would need enough space to do so.

Locality pay also presents other concerns for CFOs. One CFO said, "If people do not go into the office, then do they lose their locality pay?" Another added: "Will there be a new pay scale?" Additionally, collaboration and co-working spaces present new expenses for cleaning costs and providing office and home workspace equipment.

Recommendation

COVID-19 created a pause in which agencies can reevaluate their footprint and consider hoteling, improvements in office configurations, and expanding collaboration space. Agencies should consider the financial and non-financial costs and benefits of downsizing and analyze the best ways to transform their space to support employees for optimal mission success.

IT Investments

The pandemic familiarized the federal workforce with meeting and teleconferencing platforms, such as Microsoft Teams and Zoom. Most CFOs commended their IT departments for the smooth transitions. Any issues in the beginning of the crisis were quickly mitigated, and the departments encountered only minimal issues in the study period.

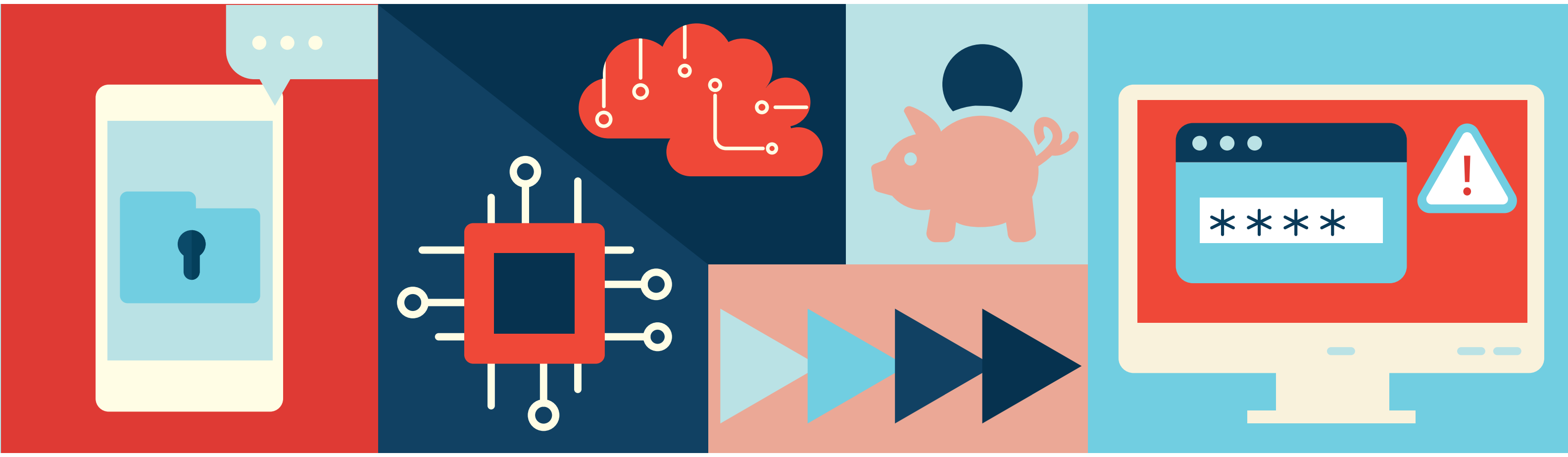
Investments: Some CFOs noted that their CIO counterparts received money to enhance their IT infrastructure. It appears most of the funds were used to increase connectivity and bandwidth, as well as to purchase and ship IT equipment. One agency noticed mobile phone usage going “way up,” so management encouraged staff to utilize the voice-over-internet capabilities of their videoconferencing system. Another office received an estimate for $600 -$1,000 to upgrade each desk phone in the office, so they may opt to save the money and “stick with Teams even in the office.” Utilizing voice over internet and videoconferencing platforms could also present opportunities to reduce landline costs in the future.

Equipping employees with the updated technology prepares them to do their job efficiently. As one CFO commented, “Wonderful IT support at our agency allowed us to do all of the financial reporting pretty seamlessly.” As a result, agencies anticipate that the IT investment strategy will become more formally tied to virtual workforce support.

IT Modernization and Skill Sets to Modernize: With a strong focus on maintaining or improving the IT infrastructure, AGA and Grant Thornton wanted to know whether it affected IT and financial system modernization priorities. Of the CFOs interviewed, those with modernization initiatives in progress did not see any major impacts. For one agency, the pandemic provided the impetus to reevaluate their data needs for better decision-making support.

Recommendations

- As long as a majority of the workforce continues to work from home, CFOs and CIOs will need to partner with one another to ensure virtual workforce support is an IT budget priority.
- CFOs and CIOs will also need to consider and potentially reprioritize financial systems modernization efforts, and other major IT spend initiatives, against the need for stable IT infrastructure support.



Organizational Resiliency Planning

Overall, CFOs said their agencies responded well to the pandemic. They credit their resiliency to a focus on maintaining culture and supporting their employees.

Manage risks as an organization: Identifying and managing risks requires a keen focus on mission and strategic objectives. The COVID-19 pandemic highlighted the importance of Enterprise Risk Management (ERM) as more than a compliance exercise as well as ERM integration into organizational strategy. One FM executive stated, "ERM is not just disaster recovery or continuity of operations plans. It is the fabric of an organization."

Agencies with formal ERM / Risk Management Governance Councils have enjoyed good engagement across the C-suite, enabling them to identify any effects on programs. One CFO noted that the pandemic forced the agency into more transparent discussions about risk. While an "incentive to paint a rosy picture" existed, "this is changing. There is a more honest discussion about enterprise risk." CFOs are now asking what could go wrong so they can avoid problems.

Even throughout the interviews, CFOs commented on working with their Chief Human Capital Officer, Chief Information Officer, and Chief Risk Officer counterparts to manage the workforce, IT, real estate, and risk challenges presented by the pandemic.

Recommendations

- Creating and fostering a resilient workforce takes work. Agencies should consider asking for employee feedback, scheduling touchpoints, and giving employees the opportunity to lead initiatives and learn to fail and be part of the solution.
- Focusing on cultivating working relationships will reap significant benefits, including a higher level of loyalty among senior leaders and freedom for employees to focus on opportunities rather than problems associated with a poor work culture.
- Agencies should prioritize ERM as a critical component of strategic planning and agency operations. Managing and mitigating risks requires effort from the entire C-suite.

"Enterprise Risk Management is not just just Disaster Recovery or Continuity of Operations plans. It is the fabric of an organization."

Conclusion

"Resiliency is how you respond." Despite the organizational challenges presented by COVID-19, CFOs have leveraged their unique position to guide their agencies' long-term decision-making in hiring and in evaluating real estate options.

Several agencies had already established remote and telework options before the pandemic, while other agencies continue to define what works best for their cultures. Regardless, all agencies grapple with questions of bringing employees back to traditional offices or maintaining the remote workforce as a feasible option in the "new normal." CFOs now find in their ever-expanding job descriptions a new title — real estate broker.

So far, CFOs have enjoyed reliable IT services overall. However, moving forward, decisions on IT investments and ensuing trade-offs will continue to draw on the expertise of both the CIO and the CFO. To ensure continued organizational resiliency, the CFOs and FM leaders in our study have contributed tirelessly to answer their agencies' most pressing questions and anticipate organizational as the 'new normal' becomes just normal.

Endnotes

1 "Employment by Industry, Seasonally Adjusted." Employment by Industry, U.S. Bureau of Labor Statistics, www.bls.gov/charts/employment-situation/employment-levels-by-industry.htm