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Lawrence Livermore National Security CFO Processes Functional Management Assessment

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Lawrence Livermore National Security
CFO Processes
Functional Management Assessment

Assessment Document Number XXX-XXX

Report Date: May 5, 2008

Dates

The Functional Management Assessment of the CFO Processes was performed at the Laboratory on April 21 and 22, 2008

Team Composition

The assessment team was comprised of the following individuals:

Anette Sparks
Principal Vice President and Controller
Bechtel Group, Inc.

Dan Sampson
Assistant Vice President - Financial Control and Accountability
University of California, Office of the President

Brian Thomas
Washington Group International Business Services Manager, Waste Treatment Plant
Washington Division of URS Corporation

Committee oversight was provided by:

Maureen Mendez
CFO and Business Services Manager
Bechtel National, Inc.

Scope

The scope of the Functional Management Assessment of the CFO included a review of the CFO Organizational Structure, including deployed financial services and the division of responsibilities and internal controls between CFO and other organizations that perform financial functions across the Laboratory. In addition, the assessment team solicited input from end users and reviewers.

Persons Contacted
The following people were interviewed, either individually or in a group setting:

- Linda Rakow
- Pam Smith
- Jeff Brunetti
- Ron Butters
- Kathy Baker
- Debbie Payne
- Gary LeCheminant
- Jason Benziger
- Bob Bills
- Stu Jossey
- Ann Felix
- Maureen Morley
- Lori Straley
- Clint Voorhees
- Liane Arruda
- Marguerite Dias
- Bruce Warner
- Edna Waller
- Al Moser
- Rachelle Jeppson
- Madeline Heal
- Paul Schafer
- Frank Russo

Key Documents Reviewed
The following documents were provided to the team for review either prior to or during the assessment:

- CFO Org Structure Pre-review Materials
- CFO Processes Kick-off Briefing
- Project Costing Implementation Presentation
- Internal Audit Report # 06-14 Employee Relocation

Description of Areas Assessed

The following Laboratory-wide financial areas were reviewed during this assessment:

- Lab Wide Financial Operations Structure
- General Accounting
- Financial Reporting
- Financial Systems Upgrade (PCI)
- Accounts Payable
- Treasury
- Payroll
- Corporate Accounting (LLNS LLC)
- Industrial Partnership Office (IPO)
- Travel
- Work for Others (WFO)
- Relocation
- Special Disbursements

ISSUES NOTED AND RECOMMENDATIONS

ISSUE: Financial activities and cash transactions are occurring outside the CFO organization.

DISCUSSION:

- Approximately $200M of non-purchase order spending occurs in seven areas outside CFO control (travel, relocation, special disbursements, IPO, legal, risk management, and freight).
- NIF financial services have not been integrated into the CFO organization and operate outside CFO control. .
- Business risks
  - There is no single point of financial accountably
  - Currently within the CFO and Business and Operations organizations there is a lack of clarity of roles and responsibilities for financial activities.
  - Financial talent within the laboratory is fragmented
  - Inefficiencies exist based on the current structure.

An example of the above business risks associated with organizational structure can be observed in the process for reimbursement of relocation costs to employees. Currently, Human Resources and Travel both administer portions of an employee's relocation. Costs are reviewed for compliance with FAR travel guidelines and for compliance with the offer letter but there is no financial review for allowability of costs nor is there a single point where the total relocation costs are reviewed. Through the e-pay system the check is processed by the CFO organization but there is no review by that organization.

RECOMMENDATIONS:

- Consolidate financial activities. Consolidations should occur as soon as can be reasonably achieved. Recognizing the laboratory is currently undergoing the third part of its workforce restructuring, the recommendation is to consolidate activities under the CFO once the involuntary separation is completed. Consolidation will allow for better utilization of remaining resources.
- The NIF consolidation should occur once NIF moves from a line-item project to an on-going operation. The business analysts in NIF should be aligned to CFO and then matrixed to NIF in order to establish common operations across the Lab. This is scheduled for March 2009.
- Once consolidation occurs, define functional roles and responsibilities. Post consolidation the roles of the various departments within the CFO organization should be clearly defined and accountabilities assigned. This is particularly true with both the matrixed and deployed financial groups where a lack of clarity exists within the current organization.
- Establish clear accountability. A single point of accountability for financial activities should reside with the CFO.

ISSUE: Impact of involuntary separation on current and future activities

DISCUSSION - RISK:

- Loss of internal controls – with the upcoming involuntary reductions there will be a loss of personnel with institutional knowledge which will increase the risk of losing internal control on some processes. The organization needs to be cognizant of this risk and take measures to minimize financial risk and ensure on-going A-123 compliance.
- Project Costing Implementation (PCI) delay – the implementation of PCI is key to achieving integration and reporting of financial data. Presently, business analysts spend half of their time collecting and compiling data and 94% of the labs financial management reports are created using spreadsheets. Currently, the PCI project is on schedule but the involuntary reductions may result in loss of support in this area.
- Financial Performance Milestones not met – for FY-08 there are fixed, base and stretch financial performance milestones for the laboratory. With reductions in staff the risk of missing key milestones increases

RECOMMENDATIONS:

- Short-term – Identify key risk areas and investigate options to mitigate.
- Long-term - Consolidation of financial activities within a single organization will provide additional resource flexibility. In addition, the implementation of PCI will allow financial analysts to work smarter and spend time performing analysis verses data collection.

ISSUE: Strategically growing the Work for Others (WFO) Portfolio

DISCUSSION:

- A key objective of the laboratory is to increase WFO. Greater reliance on WFO will result in additional funding sources and increase the number of control points and financial activities to be monitored thus increasing the level of financial complexity at the lab. The CFO organization should work now to improve controls and processes to accommodate these changes. In particular the following areas should be focused on:
  - Cost reporting needs to be streamlined
  - Cost Transfer controls need to be increased
  - Timely monitoring and close out of contracts needs occur.

RECOMMENDATIONS:

- Design CFO organizational model and review staffing to ensure it will meet the needs of WFO as it grows.
- Streamline cost reporting with the implementation of PCI and a simplified rate structure.

OPPORTUNITIES FOR IMPROVEMENT AND MODERNIZATION

- Consider how CFO can play a more active role in forward looking financial analysis.

  In our discussions with users of services provided by the CFO organization, we received feedback indicating that while the CFO organization does a good job of tracking performance against budget targets and presenting detailed information regarding spend, they have not historically focused on performing financial analysis to facilitate forward looking decision making. In the current funding environment, analyzing alternative scenarios and the potential impact on future spend will be important in helping management set priorities for LLNL. We encourage the CFO organization to work together with the Director and the various Directorates to understand support needs in this area and determine how these needs might best be met.

- Evaluate opportunities to leverage UC contracts for air and hotels (cars already incorporated).

  Because of their size and buying power, UC has air and hotel contracts which, we understand, have favorable pricing to the contracts in place at LLNL. It is our understanding that because of the continuing association with UC, LLNL could participate in these contracts, thus potentially lowering travel costs. Considering that cost savings are currently a priority for LLNL to meet budget targets, we would encourage representatives from LLNL's travel organization to meet with representatives from UC to review these contracts and evaluate their potential benefit to LLNL.

- Evaluate opportunities to reduce travel expenditures.

  The members of the FMA team represent three separate organizations; Bechtel, URS/WGI and UC. While the team did not perform a detailed review of travel, the collective experience of the team members supports the view that travel expenditures can represent a good place to identify cost savings. We are not prescribing specific policies be adopted, but did want to list some practices we have collectively seen to be helpful in controlling potentially unnecessary travel costs. These are:

  - Pre-approval of travel prior to commitment to incur travel costs to ensure the necessity of the trip. This could be all travel or could be limited to travel that is deemed "discretionary".
  - Requiring justification and approval, prior to travel, for an employee to use airlines, car companies or hotels other than those for which contracts have been put in place to reduce cost.
  - Scrutinizing the number of conferences/seminars attended by a single person each year as well as scrutinizing the number of people who will attend a single conference or seminar.
  - Requiring use of the LLNL credit card for business travel.

  Our recommendation is that these practices be evaluated to determine their potential application at LLNL.

NOTEWORTHY ACTIVITIES

- Work in progress with LANL to integrate activities to provide efficiencies and cost savings.

  This initiative was in the contract proposal, so it could be said that it had to be done. Even so, it is noteworthy that there is a spirit of collaboration between the two laboratories with essentially common parent companies. This effort is just getting started considering an October 2007 LLNL contract transition, but the collaboration is already apparent. The laboratories should make a note to identify what is ultimately successful for collaborative savings among LLNL and LANL, and strive for further collaboration with other laboratories.

- Quality in to-date performance of systems upgrades (Oracle, PCI).

  The LLNL team gave us a presentation relative to the Project Costing Implementation Project. This upgrade will reduce cost of business by integrating systems, eliminating redundancy, and improving controls; will provide a financial system integrated with project management tools that is scalable to support everything from small projects to large multi-disciplinary projects and programs at the laboratory; and will provide business intelligence tools to managers at all levels to enhance decision-making. It has senior management support for its completion, and is performing better than expected largely because the implementation team is using internal labor as opposed to contractors with higher unit rates. The cost performance index is currently 1.3 and the schedule performance index is currently 1.08 (>1 is better performance than expected). The implementation team will need to manage the project carefully in the near term due to the turbulence in the employee population.

- Good team collaboration.

  It was noted by the FMA team that over the four days it spent with the LLNL team that there was a spirit of collaboration among the financial community, even though organizationally the community is somewhat fragmented throughout the organization. What was particularly noteworthy was that in the four days, the FMA team did not witness a single incident of complaint about another organization, regardless of function or management level. This is especially noteworthy in the context of the announcement of the involuntary separation program announced the week prior to the FMA team arrival.

- Internal systems controls appear effective.

  It was noted that site systems in place at contract transition have been and remain effective, if not satisfactorily efficient. No "fatal flaws" were noted that need immediate attention in order for business to be effectively conducted. As previously noted, efforts are well underway to improve the system efficiency.