

## **Human Capital: Job Classification**

**04-01**

**Farm Credit Administration**

Office of the Inspector General  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090

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June 29, 2004

The Honorable Nancy C. Pellett  
Chairman of the Board and  
Chief Executive Officer  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090

Dear Ms. Pellett:

The Office of the Inspector General completed an audit of the Farm Credit Administration job evaluation program and position management. The objectives of this audit were to determine whether the Farm Credit Administration position management is adequately administered and whether the job evaluation program reflects sound management principles.

We found that if administered properly the Farm Credit Administration job evaluation program is effective in achieving a "performance based system" reflecting equal pay for equal work. In addition, we found that desk audits completed on job positions were generally well documented and completed fairly and objectively. However, to ensure job classification continues to be in alignment with position value at Farm Credit Administration, periodic reviews should be completed on the job evaluation criteria. In addition, management must be held accountable for reasonable decision making on issues that effect job classification. Internal controls should also be improved to ensure position management is effectively administered.

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 November 2003 through April 2004. We provided a draft report to management on May 14, 2004. We conducted an exit conference and discussed the draft report with the Office of Chief Administrative Officer and the Chief Operating Officer on June 8, 2004. Where actions were presented to the Office of Inspector General that would resolve audit findings, the recommendations were changed to agreed upon actions.

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

Respectfully,

A handwritten signature in black ink that reads "Stephen G. Smith". The signature is written in a cursive style.

Stephen G. Smith  
Inspector General

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## BACKGROUND

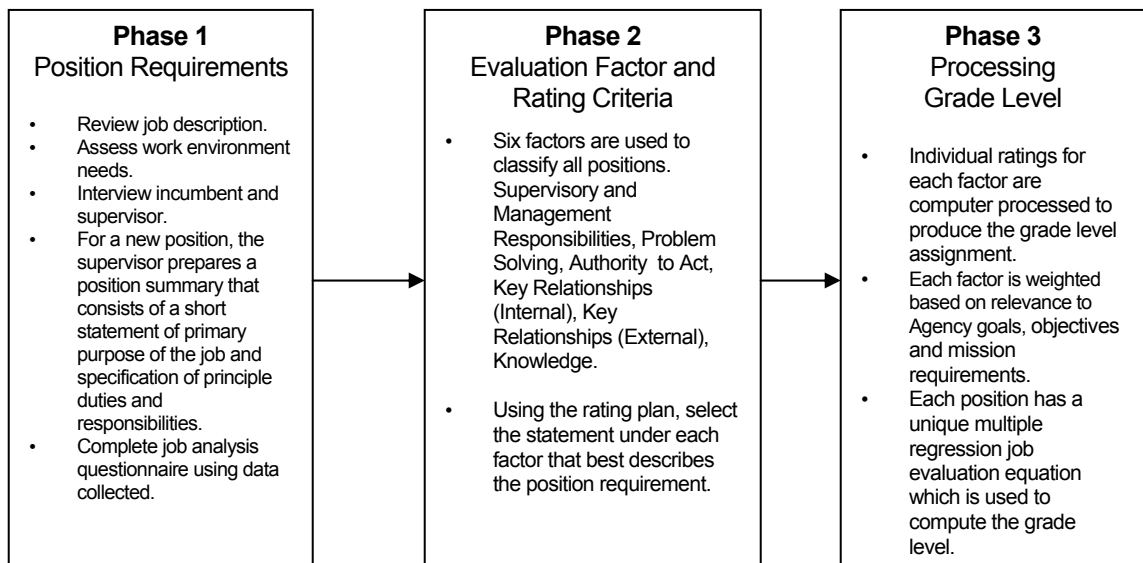
The Farm Credit Administration (FCA or Agency) is an independent Federal bank regulatory agency that employs approximately 284 persons. Salaries and employee benefits accounted for \$30.8 million or 81.5 percent of the total funds used in FY 2003. Under the 1989 Financial Institution Reform, Recovery, and Enforcement Act and the Farm Credit Act, FCA is exempt from standard Federal government compensation benefits programs. The Farm Credit Act states “In setting and adjusting the total amount of compensation and benefits for the employees of the Administration, the Chairman shall consult with, and seek to maintain comparability with other financial regulatory agencies”. The Agency periodically conducts salary surveys of agencies covered by the Financial Institution Reform, Recovery, and Enforcement Act of 1989.

The Office of the Chief Administration Officer (OCAO) is responsible for the FCA compensation program administration. The compensation program primary objectives are to:

- Attract, retain and motivate Agency employees.
- Maintain “comparability” with other financial regulatory agencies and the private sector labor market.
- Set pay at any dollar amount in the assigned pay range.
- Award pay increases on the basis of individual performance and position in the salary range, without regard to any non-merit factors.

The Agency Policies and Procedures Manual 819 “Farm Credit Administration Position Management and Job Evaluation Program” establish practices and procedures for administering the FCA position management and job evaluation program. According to the manual, the job evaluation process provides the framework for establishing Agency salary ranges and pay decisions. Through a systematic process, Agency positions are graded according to their internal value (their relative contribution to accomplishment of Agency goals, objectives and mission requirements). The following diagram describes the process.

### Job Evaluation Process



Agency policy also outlines position management activities as follows:

- Agency supervisors review individual job descriptions annually. Supervisors are to sign and date the job description and certify accuracy.
- Human resource specialists will certify that the title, series, and grade of the position are in accordance with the FCA compensation and job evaluation program.
- OCAO will periodically review Agency work units and/or individual positions to assure the accuracy of the individual evaluations and assessing compliance with the Agency's position management and job evaluation program.

## **OBJECTIVES AND SCOPE**

The objectives of this audit were to determine whether the job evaluation program reflects sound business practices and whether position management is adequately administered. We reviewed FCA policies and procedures on job evaluation and position management. We reviewed data on the pay system and compensation study reports. We reviewed documentation on revisions to the job evaluation program. We reviewed desk audit files from July 1998–October 2003. We compared job evaluation scores with grade classification for all FCA personnel. We also interviewed appropriate FCA staff in relation to audit objectives.

## **FINDINGS AND RECOMMENDATIONS**

The Federal government is strongly encouraging agencies to use merit-based programs because such programs provide more variable rewards that are directly tied to performance results. Overall we found if administered properly the FCA job evaluation process is effective in achieving a “performance-based system” reflecting equal pay for equal work. In addition, we found that desk audits completed on job positions were generally well documented and completed fairly and objectively. However, to ensure the job classification continues to be in alignment with position value at FCA, periodic reviews should be completed on the job evaluation criteria. In addition, management must be held accountable for reasonable decision making time on issues that affect job classification. Management decisions that affect job classification must remain fair and they need to be implemented responsibly. Also, internal controls should be improved to ensure position management is effectively administered.

### **Job Evaluation System Review**

Since the inception of the compensation program in 1992, reviews of salary administration have been primarily focused on market surveys of other financial regulatory agencies. Management conducted these reviews to ensure salary ranges remain competitive with market movement. Although market comparability studies are essential to ensure the compensation program remains comparable, it is equally essential that reviews be completed to determine whether job evaluation criteria remain consistent with the Agency's goals, objectives and mission requirements. In a 2002 survey conducted on FCA compensation practices, it was revealed that FCA's pay ranges were the least competitive for the following positions: Accountant VH-37; General Counsel VH-44; Computer Specialist VH-39 and Policy Analyst VH-39. Because the study was not focused on the job evaluation system, a recommendation was made that the Agency assess whether grade assignments continue to be consistent with the intent of the Agency's job evaluation system.

When developing the job evaluation system, FCA's intent was to develop a system that would classify a position according to the value the position had to FCA. Over the years FCA's organization structure has changed. In 1992, FCA had 513 positions with seven directorates

reporting directly to the Chief Executive Officer (CEO). In 2003, FCA has approximately 284 employees with twelve directorates reporting directly to the CEO or Chief Operating Officer (COO). With fewer employees and more directorates reporting directly to upper management, FCA's organization structure has resulted in a flatter organization with fewer management levels. This type of change may impact job classification. For example, the job evaluation factor, "internal relationship" addresses a job position contact level to upper management. Consequently job position classifications can become out of alignment with FCA job value. We compared the 1992 career ladders for certain positions with the current grade levels. Our comparison showed that over time grade levels have increased beyond the established career ladder grade level. For positions reviewed, the chart below shows the percentage of positions that exceed the career ladders grade level. According to OCAO, grade levels that exceed career ladders are primarily due to specialized work within an occupational series or increased duties and responsibilities.

<b>Current Position Title</b>	<b>Occupational Series</b>	<b>1992 Career Ladders</b>	<b>Percentage of Current Positions that Exceed Career Ladders</b>
FCA Examiner	1101	VH-38	VH-39(65%)/ VH- 40(7%)
Financial Analyst	1160	VH-38	VH-39 (33%)/ VH-40 (67%)
Computer Specialist	334	VH-34-38	VH-39 (33%)/VH-40 (67%)
Information Technology Specialist	2210	VH-34-38	VH-39 (50%)
Human Resource Specialist	201	VH-33-38	VH-39 (67%)
Attorney*	905	VH-37-40	VH-41 (40%)

\* Excepted service positions. Promotions are not subject to the same rules as competitive services.

The job evaluation program focuses pay decisions on job content. The job evaluation factors are the primary basis for assessing how job content fits into the Agency's job hierarchy. FCA's job evaluation factors and weights associated with each factor were derived in 1992 and reflected the Agency's organization structure, culture and values at that time. High performing organizations are continually reviewing and revising their compensation programs to support their strategic goals. Because the Agency's organization structure has changed over the years and the Agency's core values have been formalized, the job evaluation criteria should be reviewed to determine whether it still remains relevant to the Agency's goals and objectives, and whether the FCA's job hierarchy supports the Agency's strategic plan.

**Agreed Upon Actions**

1. The Chief Administrative Officer will conduct a review of the job evaluation program. The review will include the following:
  - a. an assessment on whether grade assignments are consistent with the intent of the Agency's job evaluation system and compensation philosophy.
  - b. an assessment on whether job evaluation factors and weights placed on those factors are in alignment with the Agency's goals and objectives.

## Management Decision Making

Our review showed that management's delay in making a decision on the Office of the Chief Financial Officer (OCFO) reorganization has resulted in employees being paid for work not performed. We found two instances where management's three- year delay in making a decision on the OCFO organizational structure has resulted in two employees' grade classification being higher than actual duties and responsibilities performed. The following is a chronological listings of events related to the OCFO reorganization.

- |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| September 2000 | FCA Board created the OCFO. The CFO envisioned the OCFO having three divisions: 1) Systems, 2) Financial Reporting and 3) Budgeting and Analysis. According to the CFO proposed reorganization chart, each division would have a director at grade 41.                                                                                                                                                                                                                                                                         |
| October 2000   | FCA announced a position for an Assistant CFO for Systems. Applicants were requested to provide a narrative that supported their ability to direct and supervise employees.                                                                                                                                                                                                                                                                                                                                                    |
| December 2000  | An Assistant CFO for Systems was hired at grade 41. The position description specifically states duties and responsibilities will include directly supervising a division staff. The employee has not performed supervisory work since entering the position.                                                                                                                                                                                                                                                                  |
| March 2001     | The financial statement management letter dated March 8, 2001 recommended that the FCA management ensure personnel preparing financial statement have skill levels that include knowledge of Federal accounting standards.                                                                                                                                                                                                                                                                                                     |
| April 2001     | The CFO submitted a personnel action to recruit for an Assistant CFO for Budgeting and Analysis (VH-41), a Senior Systems Accountant (VH-40), and an Assistant CFO for Financial Reporting (VH-41).                                                                                                                                                                                                                                                                                                                            |
| Summer 2001    | The CFO submitted a proposed reorganization plan to the COO. The CFO discussed with the CEO and COO plans for creating three divisions. The Chief Administrative Officer (CAO) also reviewed the reorganization plan.                                                                                                                                                                                                                                                                                                          |
| June 2001      | In a memo to the CEO, the CAO raised concerns with the reorganization plan. Specifically the CAO felt the reorganization plan did not provide enough detail on how employees were to be organized; it appeared as if positions and responsibilities were overlapping; and the average grade level in OCFO would be raised to the grade 40 level, the second highest divisional grade level in the Agency. Based on the CAO concerns, the CEO initially delayed the announcement for the Assistant CFO for Financial Reporting. |
| August 2001    | FCA announced a job for an Assistant CFO for Financial Reporting even though no changes had been made to the reorganization plan and it had not been formally approved.                                                                                                                                                                                                                                                                                                                                                        |
| January 2002   | An Assistant CFO for Financial Reporting was hired at grade 41. The position description specifically states duties and responsibilities will include directly supervising a division staff but the employee has not performed supervisory work since entering the position.                                                                                                                                                                                                                                                   |

January 2002

The Office of Inspector General issued an audit report that addressed the OCFO's lack of an organization structure plan based on workload requirements. The report included an agreed upon action which stated the CFO would redesign the organizational structure based upon a complete review of all job requirements. The review was to include an evaluation of all job position descriptions to incorporate new job requirements and eliminate outdated job requirements. It has been 28 months since issuance of the report and corrective actions to address the agreed upon action have not been completed.

The CFO acknowledges the importance of establishing an organization structure that supports employees' grade classification. However, the CFO has no time frame on when OCFO will be reorganized appropriately. In addition, upper management has overlooked organization structure disparity within the OCFO and facilitated the CFO's ability to circumvent the Agency's policies and procedures on position management. Consequently, employees continue to be paid for duties and responsibilities they are not performing. Our review of the job evaluation process showed that if the supervisory factor was removed from the Assistant CFOs' position descriptions, the job evaluation score would probably result in a grade 40. In addition, removal of the supervisory factor can result in lower adjustments of other job evaluation factors such as authority to act, internal contacts and the knowledge area. We calculated the difference in salary between a grade 40 and grade 41. Using the midpoint salary range average, the salary difference is \$14,284. Over a three year period for these two positions the salary difference totals \$85,704.

Authority to make organizational changes within any office rests with the CEO and may be delegated to the COO or Office Director. Further, supervisors are responsible for reviewing job descriptions annually and certifying their accuracy. During the review, if any substantive changes to position descriptions are noted, such as duties not being performed, the changes should be documented and subject to reevaluation by OCAO. Unfortunately, if job classification issues remain unresolved for a long period of time it creates misunderstanding by Agency personnel and can result in administrative and financial burden to the Agency.

### **Agreed Upon Actions**

2. The Chief Operating Officer will review the grade levels of the Assistant Chief Financial Officer for Systems and the Assistant Chief Financial Officer for Financial Reporting positions by:

- a. Obtaining approval for the Office of the Chief Financial Officer organizational structure from the Chief Executive Officer.
- b. Directing the Chief Financial Officer to update the Assistant Chief Financial Officer position descriptions to accurately reflect duties and responsibilities performed within the approved organization structure.
- c. Directing the Chief Administrative Officer to reevaluate the positions based on actual duties and responsibilities performed and recommending appropriate personnel actions.
- d. Making a decision on the personnel actions, recommended by the Chief Administrative Officer, whether the Assistant Chief Financial Officer for Systems and the Assistant Chief Financial Officer for Financial Reporting positions should be reclassified.



## Appropriate Accountability

We found some instances where management decisions have resulted in job evaluation score overrides. This has an impact of higher grade classifications than job evaluation scores. The FCA job evaluation program consists of a computerized evaluation process and a related data base containing the current job evaluation scores in effect for all positions throughout the Agency. It is imperative that the job evaluation process values the content of the position, not the capabilities or qualities of individual employees. We reviewed 152 job positions and compared their job evaluation scores to the current grade levels. Overall, grade positions within FCA were consistent with job evaluation scores. However, we did find five positions, at or above grade VH-40, where the grade classifications were higher than the job evaluation scores.

The difference between grade classification and job evaluation score*	Reasons for Higher Grade Classification
2.46	Through reorganization upper management reassigned the employee to a lower grade position as incumbency allocation. Incumbency allocation allows the employee exemption from downgrading and the employee keeps their current grade level for the duration of their tenure in the position.
2.36	Due to an office's reorganization the employee was reassigned to a lower grade and will maintain their grade for two years.
1	Employee reassigned as incumbency allocation and able to maintain their grade from previous position.
.76	Employee was reassigned and the current position duties and responsibilities do not support current grade.
.57	Over time the employee's responsibilities and duties have decreased resulting in a lower grade classification.

\*Differences were calculated by subtracting the job evaluation score from the grade level (i.e. 41 [grade level] - 39.21[job evaluation score] = 1.79 increase grade level.)

The job evaluation system provides a basis for the Agency to evaluate positions in a fair and objective way. The job evaluation system also affords a mechanism for achieving pay equity the principle of equal pay for substantially equal work. Therefore, the decision to allow employees to maintain "incumbency allocation" status must be thought out carefully to ensure the process remains fair and objective. In addition, when desk audits are completed on positions, OCAO should send a memo to the appropriate level of management stating the desk audit results. This ensures that management is aware of employee's grade classification. When management is aware that an employee's grade classification is higher than the position's job evaluation score, action should be taken to ensure duties and responsibilities support the grade classification. If grade classifications are not supported by job evaluation scores, it gives the appearance of unfairness and can erode the merit system principle concept of "equal pay for equal work".

### **Agreed Upon Action**

3. The Chief Administrative Officer will send a memo to the appropriate level of management stating results of all desk audit reviews. A copy of the memo will be maintained in the desk audit file.

### **Internal Controls**

OCAO has some effective internal controls to ensure the job evaluation process is administered appropriately. For example, our review of 22 desk audit files from July 1998 to October 2003 showed that OCAO had adequate controls to ensure the process was fair and objective. Specifically:

- OCAO had established comprehensive policies and procedures for completing desk audit reviews and overall procedures are followed.
- The human resource specialist responsible for completing reviews demonstrated competence in the process and understanding the importance of completing fair and objective reviews.
- Desk audits were completed timely and overall files reviewed contained sufficient documentation to support desk audit results.
- There was adequate separation of duties. The person completing the reviews and the person making final promotional decisions is not the same.

OCAO also completes periodic reviews on personnel files to ensure appropriate documentation is maintained. We commend OCAO for taking steps to make sure the job evaluation program is fair. However, because our review showed other internal control weaknesses, resulting in grade classification disparity, additional steps must be taken to strengthen controls over the job evaluation program. Additional controls exist which, if followed, could prevent the grade classification disparities we found in our review.

According to Agency Policies and Procedures Manual 819, OCAO is to complete periodic reviews of Agency work units and/or individual positions to assure the accuracy of individual evaluations and compliance with guidance on job evaluation and position management. OCAO is supposed to distribute summary reports to the CEO/COO and office director stating review results. According to OCAO, these reviews are not performed. Agency resources need to be focused on activities that have a major impact on Agency expenditures. In 2003, salary and benefits accounted for 81.5 percent of Agency costs. Given the high impact of position grades on administrative costs, the reviews prescribed by existing procedures would be an effective control over the administration of the job evaluation program. Therefore, OCAO should ensure it dedicates the resources to perform periodic reviews of Agency work units' compliance with job evaluation and position management guidance.

In addition, to properly assess the accuracy of job descriptions, organizational charts must be current and accurate. According to Agency's guidance, the FCA Board approves the FCA organization chart down to the office level. To validate approval FCA's organizational chart is signed and dated by the Chairman of the Board. Authority to make organizational changes within any office rest with the CEO and can be delegated to the COO or office director. However offices' organizational charts are not signed or dated to validate approval. Consequently offices' organizational charts are not always current or accurate. For example, the former Office of Congressional and Public Affairs was reorganized into the Office of Communication and Public Affairs and the Office of Congressional and Legislative Affairs. There are no organizational charts for the newly created offices. Further the Office of Policy and Analysis organizational chart does

not reflect a significant supervisory position within the office organization structure. Therefore, to ensure all offices organizational charts are valid, the COO should sign and date them and OCAO should maintain a file of all approved organizational charts.

**Agreed Upon Actions**

4. The Chief Administrative Officer will establish a plan to assess at least 20 percent of all positions each year so that all positions are reviewed at least every fifth year. The Chief Administrative Officer will provide the Chief Executive Officer and the Board with an annual summary of assessments. Each assessment will include the following:

- a. Reviewing job descriptions for accuracy.
- b. Assessing whether grade classification is supported by an approved organizational structure.
- c. Assessing compliance with position management policies and procedures.

5. The Chief Administrative Officer will make sure all offices' organizational charts are approved with a signature and date. The approved organizational charts will be retained in the Office of Chief Administrative Officer.

# REPORT


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## FARM CREDIT ADMINISTRATION OFFICE OF INSPECTOR GENERAL

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