



*Risks New CFO's May Encounter in the First
Year and How to Mitigate Those Risks*

2019 Ohio Fiscal Academy

Risky Business Cohort #9

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Executive Summary

Retirement of financial leaders, within five years or less, across all Agencies, Boards, and Commissions leaves the State of Ohio vulnerable at the foundational level for lack of knowledge transfer and succession planning. The Ohio Fiscal Academy is operating the 9th cohort of apprenticeship training to better-equip participants for success in fiscal leadership with an anticipated long-term benefit of staff retention at the Executive level. The Risky Business Team researched the potential risks and mitigation techniques to assist future Chief Fiscal Officers (CFO) and mid-level managers in preparation for career advancement. Previous OFA Cohorts 6 and 7 discussed their studies regarding transition success and knowledge transfer explaining the preparation needed for fiscal professionals to take on CFO roles due to retirements. The Risky Business team journeys further to examine the novice CFO's current experience as a new executive by looking through the lens of their experience.

This case study used a few research approaches, including personal interviews with a rubric on CFO's experience to assess the common risks as well as retirement projections. The retirement trends have shown how many managers in their current positions could retire. The chart information in the analysis section could assist in preparing emerging managers to take on the new title and role. Eight directors, including a CFO, COO, and Deputy, shared eye-opening details of their professional experience. Many of them consider themselves a novice at the start of the first month to 5 years. The others have been working for 30 years. The interviews were designed to analyze their personal experience and advice vital for success in their roles and the unforeseen challenges they faced. Strengths and weaknesses in their organization were identified to help them overcome the challenges of entering a new position.

The themes such as policy procedure, management training, communication, succession planning, risk management are outlined in scholarly journals from the State Library of Ohio, websites, manuals, and professional publications. Our team pulled the retirement data from the DAS provided, and identified how many year until their potential retirement. The rubric was used to identify the criteria for each interviewee; the range of rating was assessed and voted by each team members to determine their strengths. The research used to see if the CFO experience succeeds and mitigates the risk by determining if their background experience has positively prepared them for their higher role.

The response from each CFO interviewee was positive and empowered them to share their knowledge with the team. Each noted the emphasis that their role would face varying challenges if working within a smaller agency versus a larger agency. They shared suggestions on how to lead employees during a transition as well as policy, finance climate and develop/prioritize goals.

The risks we discovered are most common in the agency's financial climate and identify/prioritize goals; however, each case was unique. In CFO's experience, they seemed to expect some challenges in their agency after their appointment. Our recommendations are included to mitigate the risk and would serve the best practice of the organization in the next generation of new managers who will take over.

Introduction

The principle of the project is to identify common risks CFO's encounter in a new position as well as explore procedures to mitigate those risks. The definition of risk has many meanings, but

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one pertaining to this theme under a “financial or legal obligation; held responsible.”¹ Risks can be viewed differently, such as theories of the appropriate timing to spend or save money.

The CFO's new tenure was researched by collecting answers from current CFO's, Subject Matter Experts (SME's), in diverse organizational cultures to identify common issues. The facility to understand the complexities among agencies is critical for the new CFO to become successful in the first year.

Few CFO leaders are acquiring their new positions with no formal management training and are self-taught in the process. Although the CFO interviews highlighted a lack of training for their new role, our research shows that it shouldn't be a detriment to success. “Short and Medium Run Impacts of Management Training: An experiment in Tanzania, has not presented clear evidence that training improves business performance in terms of sales revenue, value-added, or productivity.”² Some feel it is their job to focus on problem-solving. Others feel that they focus on professional development so the agency can reach their potential in daily operations. Their reasons vary depending on each agency.

The State of Ohio mandates all agencies adhere to procedural methods and compliance for all taxpayers and stakeholders according to the Ohio Revised Code. A prerequisite for the normal functioning of the economy and the financial system is the financial control, an integral part of the unified state control mechanism. Its purpose is to promote the successful implementation of the financial policy of the state, ensuring the process of formation and efficient use of financial resources.³ In terms of managing the agency, the CFO must learn the agency in-depth to develop a better understanding of the culture and resources.

The questions ask the specific qualities of a CFO that are considered the keys to achievement in their first tenure.

1. What are the best strengths for a new CFO in The State of Ohio?
2. What are the best tools a CFO can use moving from a small agency to a large agency?
3. What leadership styles must a CFO possess to lead an effective operation, whether simple or complex?
4. What are the best skills required to prepare for an executive role?

Background

Retirement of financial leaders, within the next five years or less, across all Agencies, Boards, and Commissions leaves the State of Ohio vulnerable at the foundational level for lack of knowledge transfer and succession planning.⁴ The Ohio Fiscal Academy is operating the 9th cohort of apprenticeship training to better-equip participants for success in fiscal leadership with

¹ Risk, Dictionary.com

² Higuchi, Yuki, et al. “Short- and Medium-Run Impacts of Management Training: An Experiment in Tanzania.” World Development, vol. 114, Feb. 2019, pp. 220–236.

³ISAC, Daniel. “State Fiscal Control: The Experience of Developed Economies.” Knowledge Horizons / Orizonturi Ale Cunoasterii, vol. 11, no. 1, Jan. 2019, pp. 69–74.

⁴ Department of Administrative (DAS). Ohio's Talent for Tomorrow and Beyond: Learning and Development Project Management Program, 2011

an anticipated long-term benefit of staff retention at the Executive level. Our team researched potential risks and mitigation techniques to assist future CFO's and mid-level management in preparation for career advancement. "Nearly one-quarter of Americans say they plan never to retire, according to a poll that suggests a disconnection between individuals, retirement plans and the realities of aging in the workforce."⁵ This statement raises concern due to the unpredictability of projected staffing levels down the road.

This project is relevant to the impacted organization/institution due to possible high turnover for CFOs in the coming years. It is critical for any future new or veteran CFO to thoroughly understand the agency in which they work. They could be prepared for the change if the agency had specific information to aid the transition to a new role such as the organizational history, funding history, standard internal fiscal procedure, and general operation tools. This project brings the keys to encourage high collaboration for the CFO's while connecting in transition in the position.

Our research conducted from each of the team member's representative CFO provided them a chance to share their true-life experience, and to determine if they did experience any risk and how did they mitigate that risk while supporting the goals and priorities in the agencies. The results show the different aspects of their challenges. Each agency is not a one-size-fits-all agency. Different types of rules and regulations could be missed. We hope to discover the risk from each CFO and possible mitigation techniques.

Research Strategies

The Risky Business Team developed and performed standard interview questions for each CFO. The current CFO's of each team member's representative agency volunteered to participate and be interviewed as the panel. Specifically, The Ohio School for the Deaf (OSD), Department of Natural Resources (DNR), Department of Rehabilitation and Correction (DRC), Department of Medicaid (ODM), and Department of Jobs and Family Services (JFS). Additionally, the team interviewed the Deputy Director from the Department of Public Safety (DPS), Department of Agriculture (AGR), and the former CFO from the Attorney General's Office (AGO). Four of the interviewees have worked in their position ranging 30 days to 5 months; two have worked for 5 years; two have worked for more than 13 years. One participant has been in his managerial role for many years before the appointment to Deputy Director about 5 months prior to the interview.

Our team gathered research data and succession planning information from the Ohio Department of Administrative Service's website. Lastly, the team developed a rubric and retirement trends to examine the common risks and strengths they share. A couple of CFO's provided their transition manuals for reference. Some of them may not have it on hand or are unable to provide information to us.

Method

All Risky Business Team Members were present at all interviews and developed a rubric from the responses. The participants in the interviews are: Chris Wells, CFO, (OSD); Ryan Frazee, CFO, (DNR); Michelle Horn, CFO, (ODM); Leslie Piatt, CFO, (AGR); Christina Frass, former CFO, (AGO); Connie Treece, CFO, (DRC); John Rayfield, Deputy Director (DPS); and Susan

⁵ Soergel, Andrew. "Poll: 1 in 4 just don't plan to retire." For The Associated Press, February 2019.

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Ballinger, CFO, (JFS). The interview questions below were intended to narrow down the specific experience and challenges each has faced in their role.

Questions used are in Table 1 below:

Table 1- Interview questions

1. Describe your Agency's financial climate when you assumed your role as CFO.
2. Did your Agency Director identify and prioritize strategic goals or were you given autonomy to establish and implement goals and objectives? What risks were associated with those strategies?
3. What were the resources as well as any key staff person who assisted in the transfer of knowledge? How long did it take for you to be brought up to speed?
4. What was your biggest challenge in the first year? Did you ever feel overwhelmed?
5. Did you implement any changes? How did you mitigate the potential risk of decline of business continuity from dismissive staff?
6. Do you have a mentor? What opportunities are there for networking at this level?
7. What advice would you give to a new CFO based on your own experience?

Analysis and Results

Interview Results

Answers to Question #1: Half of the interviewees described the financial climate of their new agency as a common risk and that "it was a mess, no written policy or procedures, and dysfunctional leadership". Chris Wells, OSD, said it was taking far too long to process payment card transactions, so he created forty-five program codes for better fiscal accountability. Leslie Piatt, AGR, explained two funds had no cash balance on the first day of her new position. Christina Frass, AGO, said there was so much leadership turnover at one time; no strategy, no implementation of programs. Jon Rayfield, DPS, said his current position has been stable with only a few budget challenges needing to be addressed. Susan Ballinger, JFS, also said her position is stable. However, due to specific federal reductions, Medicaid funding has been closely monitored because of interagency agreements; some work continues to be provided by JFS.

Answer to Question #2: All interviewees said their priorities are driven by the Agency Director's mission. Each agency's priorities are submitted in their biennium budget, the Director's summary letter and mostly focus on the Governor's priorities. We learned they took the risk by

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simply cleaning up and refining the goals. Chris Wells and Leslie Piatt said they were given direction to clean things up.

Answer to Question #3: All interviewees said staff responsible for accomplishing the mission are the best resources. They each took the time to talk to staff in their department to build a good rapport, understanding, and respect of their role. Most of them said it took less than one year to get up to speed.

Answer to Question #4: Sometimes, risks were not just for the internal but external stakeholders as well, such as fees and revenue. Ryan Frazee, DNR, offered that each division had their own risks; such as fee increases, internal controls, and lack of funding. Christina Frass said their priority at the AG's Office was to get all rape kits tested. They didn't realize there were over 11,000 backlogged to be tested, which took them a long time for the result. All interviewees stated at one point it is overwhelming and advised to take each challenge to move through it.

Answer to Question #5: All interviewees said they came into their position and immediately developed policies and procedures. They invested time to talk to the staff individually to better understand the culture. By observing staff, they were able to explore training opportunities and develop training protocols. Susan Ballinger, JFS, felt that training was under-utilized, and it was important to get staff up to speed to buy into her management philosophy.

Answer to Question #6: Each person said they have mentors and relied on them as a resource. Many were in previous Fiscal Academy Cohorts and developed relationships that have helped throughout the years.

Answer to Question #7: Everyone answered this question quite similarly. Be kind and develop relationships. Not a relationship to be their friend, but so they trust that you're listening to them and have their best interest and the interest of the state as a priority. Educate yourself. Take whatever training is available to you and make yourself an invaluable asset.

Results from the questionnaires

After the interviews, the team input answers into a spreadsheet, providing a breakdown of the data from the eight participants. We then developed another spreadsheet for the rubric and the team assessed each participant. The information in Table 2 presents the general idea of their knowledge, risk, and accomplishment voted by each of the cohort team members.

All CFO's interviewed said their priorities are the Agency Director's mission. Each agency's priorities are in their biennium budget, Director's summary letter and mostly focus on the Governor's priorities. We learned they took the risk by simply cleaning up and refining the goals. All of them took the time to talk to each staff in their department to build a good rapport, understanding, and respect for their role.

Communication to the team is important to all CFO's. The performance of employees will influence the performance of an organization, and one of the factors that affect employee performance is employee motivation. The changes can be through communication and culture differences.⁶ The staff is responsible for accomplishing the mission, as well as the agency's goals and objectives. Most of them said it took them less than one year to get up to speed. As a

⁶Effects of Organizational Communication and Culture on Employee Motivation and its Impact on Employee Performance, Vol.26, No.2, June 2018, pp.1133-1141

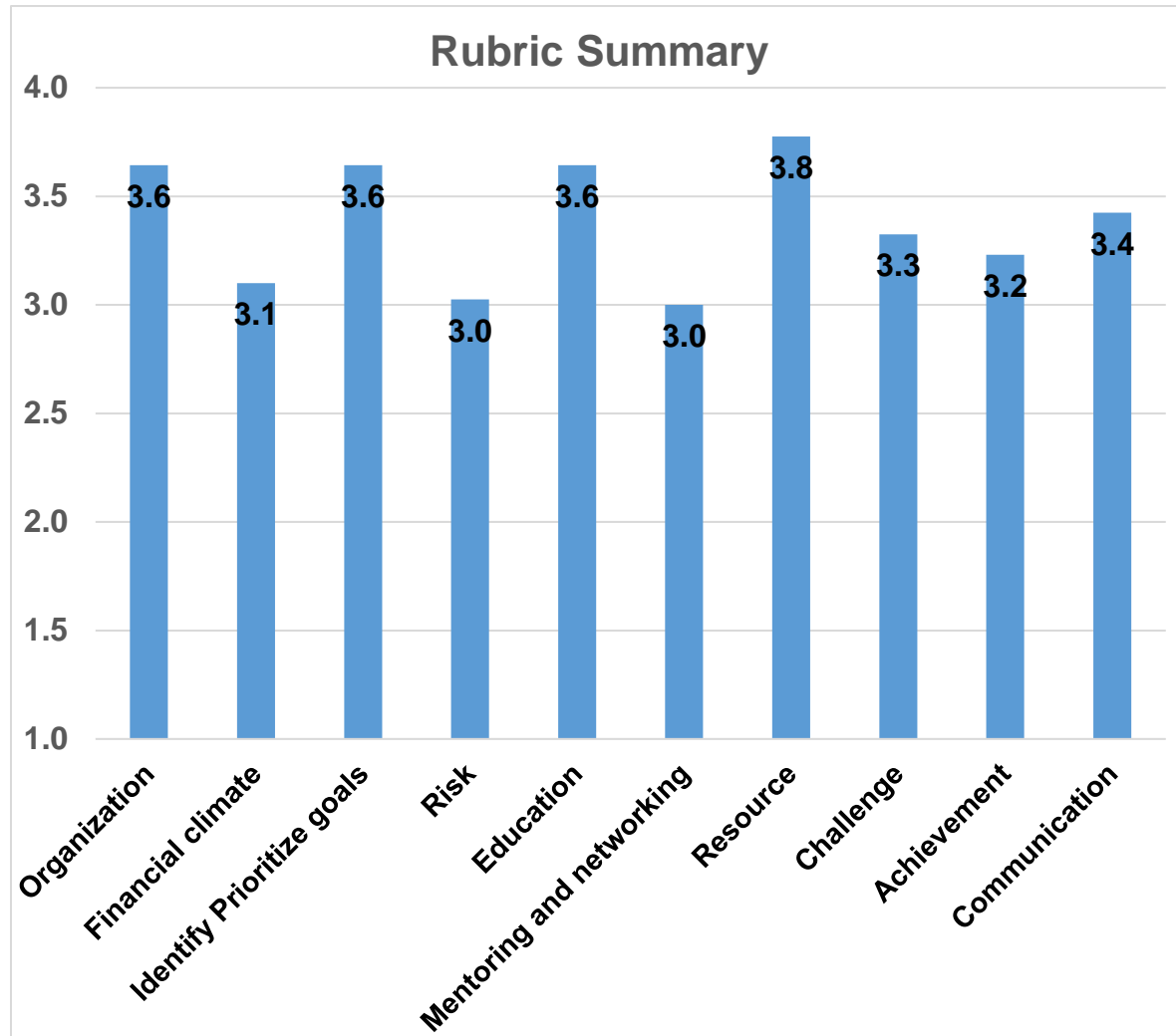
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team, effective organizational communication will lead to improved job performance and constant feedback. Most of them admitted they have had staff get together to celebrate the accomplishment. The reward varies such as having a staff day with lunch and activity provided as part of the professional development day.

In the rubric, each interviewee was scored between exemplary to inadequate of each feature. The features within the description are organization, financial climate, identify/prioritize goals, risk, education, mentoring/networking, resource, challenge, achievement, and communication in Appendix A. The results in Table 2 shows the score of three is the average of all features. Resources is scored the highest of all the features. The criteria of the resource stated, "always available whether it be OAKS, FinSource, DAS, OBM, Internet, direct contact person to seek a solution" (Appendix A).

The CFO's interviewed have demonstrated their skills, strengths, and knowledge on how to operate the organization. The high degree of attention and state-level requirement in the organization is the evidence of the importance to the CFO's responsibility. Education and a high degree of experience show the 3rd highest advantage. Financial climate, risk, mentoring and networking, challenge, and communication are scored the lowest. Overall, the total average of 33.81 is within the level of accomplishment.

Table 2



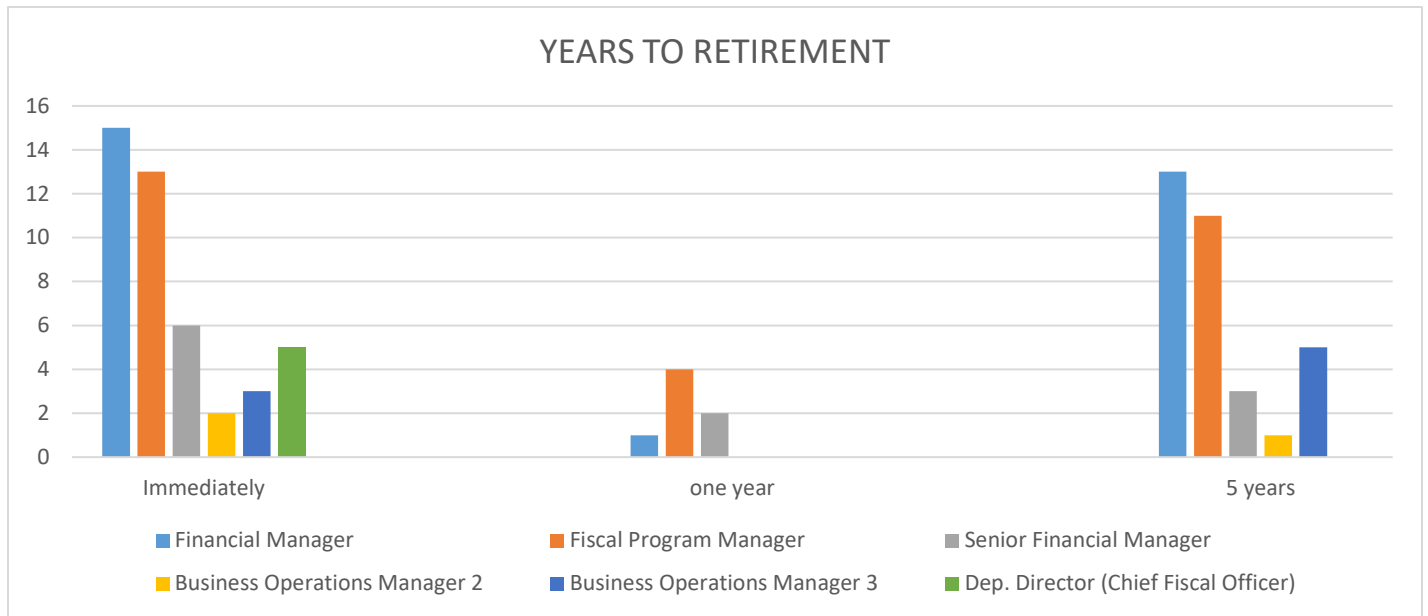
Retirement Results

The team reached out to DAS for retirement data (see Table 3). The request to DAS was for retirement numbers of the following classification: CFO/Deputy Directors, Financial Managers, Financial Program Managers and Business Operations Managers. Who can retire now; within one year, and five years out? The understanding that no one must retire but are eligible to retire. The score of 15 Financial Managers and 13 Fiscal Program Managers rate is the highest of all ready to retire immediately. Thirteen Financial Managers and 11 Fiscal Program Managers also have 5 years left to retire, respectively. Only a few Financial Managers are eligible to retire in one year. Lastly, the immediate date to retire scored the highest for the six positions range from Financial Managers to Deputy Director.

These classifications were selected only as a representation to project numbers in retirement; not necessarily that these positions are directly related to any CFO position or expected promotion to a CFO position.

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Table 3



Identified Risks

The result of the interviews showed there are risks taken in every possible situation. Whether it is a risk as a noun or verb, a CFO will prepare for many risks within their agency, and everyone sees risk differently. These features scored the lowest listed as financial climate, risk, mentoring and networking, challenge, and communication.

Our interviewees described their risks on various levels and degrees. Some identified risk as a level of knowledge, understanding the agency and developing policy and preparing for both the seen and unforeseen.

Chris Wells, OSD, stated he felt his experience with OAKS gave him a great start. When he assumed his new role, the school had five reporting codes. He knew he needed to break those out for better accountability. His Director gave him the authority to make changes.

Ryan Frazee, DNR, said, "Parks has different risks such as internal controls."

Susan Ballinger, JFS, identified risks as properly training staff; streamlining and improving the childcare referral process and eliminate the backlog, and to provide stability for the office.

Connie Treece, DRC, said, "Risks are your resources. Resources are not always available. Don't wait to get told what to do. Communicate throughout the process is the key."

Discussions/Conclusion

Financial Management Magazine says, "The role of the CFO in managing enterprise risk and creating future value continues to evolve in this dynamic and rapidly changing environment of

disruption.” Financial Management identified four strategies CFO's can use to manage risk and create value.⁷

1. Recognizing disruption, the speed of change, and underlying sources of disruption
2. Increasing the enterprise's risk IQ and capabilities
3. Thinking and Communicating Strategically
4. Developing skills to enable a forward-thinking finance organization

All our CFO's interviewed said they inherited problems and the challenge was to work through those problems. If we look at the four strategies above, it is safe to say these strategies have been or are being put to good use.

Chris Wells, OSD, said, “there were no written policies and procedures. Credit card processing took far too long, and the mishandling of ODE grants caused the school to lose funding.” He recognized there were problems and quickly set out to develop policies & procedures and additional program codes to track expenses.

Michelle Horn, ODM, said, “Medicaid was split from JFS and posed many challenges including an overdraw of federal grants.” She quickly set out to find the overdraw and how it happened, so it does not happen again.

Christina Frass, former CFO, AGO, said the goal was to process every untested rape kit. They had no idea there was over eleven thousand to be tested. Their priority was to hire additional staff and get to work to get things done.

Being able to identify where the problems were helped to ensure they don't continue to happen. Some CFO's ensure staff took training opportunities to better their skills. Alternatively, they set training requirements and monitored their development. This, in turn, would help reduce problems and ensure better accountability.

Our CFO's quickly set out to talk to their staff individually to better understand how the office functions together. They put in additional staff where needed and ensured everyone had the same common goal.

Recommendations

The Transition Manual

One recommendation is to prepare a Transition Manual for the incoming administration. A Transition Manual would allow a CFO better insight to section/division program needs and spending – both past and present. In the manual, it should include the outline shown (see table 4). The goal is to shorten the learning curve. Sample shown:

⁷ Walker, Paul & Frigo, Mark. The CFO as Chief Risk Manager :Financial Management Magazine, 1 December 2017

Table 4

Transition Manual Example

- A. Table of Organization
- B. Introduction/Narrative
- C. Director's Office
- D. Operation's Office
- E. Fiscal Operation Office
- F. Budget
 - Budget for Fiscal Year is currently implemented and allotted as appropriate.
 - Fiscal Year Budget is currently in data collection mode and awaiting OBM guidance
 - Fiscal Year Operating Appropriation
 - Fiscal Year Capital Projects
 - Projects in progress
 - Projects in planning
 - (Agency) follows all State provided guidelines regarding procurement
 - (Agency) strives to exceed the MBE requirements set forth by executive order and has done so for the last 3 fiscal years.
- G. Policy
- H. Communications
- I. Agency's functions
- J. Administrative Issues
- K. Strategic Planning
- L. Priority Projects

Training

DBP Project Management⁸ identifies "5 Ways To Manage Risk".

- Accept the risk – deal with it
- Avoid the risk – don't do it
- Transfer the risk – let someone else take the responsibility to manage this risk
- Mitigate the risk – train for it
- Exploit the risk – learn from it

One common element comes through from every interviewee is training. Each person commented on how vital training was. Whether it was training for themselves or training for their employees. Each CFO suggested to read and learn all you can and detailed how they developed training opportunities for their staff or put their staff on a training program.

⁸ DBP Project Management, July 14, 2014

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Many of the CFO's graduated from the Ohio Fiscal Academy, which they said prepared for them to face and tackle these challenges. They were taught how to navigate, network, and implement to seek improvement. They can identify issues upfront, whether it be the program codes to staff development. Using tools, references, and studying the agency from top to bottom is recommended.

The Ohio Fiscal Academy was an essential tool for each of our CFO's for training and networking and should continue being offered. Expanding the selection process to include other classifications for those who have the desire to learn. Increasing the fiscal knowledge base, statewide, narrows the risks for the lack of succession planning. Networking with participants from the Fiscal Academy provided an important long-lasting resources and professional relationships.

Leadership trainings are offered in many forums. Currently, The Ohio State University offers 2019-2020 MAPS Seminars, an 18-month long, instructor-led curriculum. The general outline of the courses is Communication Skills, Project Management, Motivation, Coach Yourself, A Culture of Innovation, Difficult Conversations, Teamwork, and many others. In addition, DAS offers Lead-Ohio Learning and Talent Development for the inspirational leaders who are interested to partake.⁹

Courses should be available to anyone, bargaining unit and exempts alike, with an opportunity to promote personal growth and development, to gain a broad perspective from other state agencies and an understanding of the State of Ohio accounting lifecycles.

⁹ <https://das.ohio.gov/Divisions/Human-Resources/Learning-and-Talent-Development-Form/Lead-Ohio-Resource-Center#4611675-curriculum>

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Appendix

Appendix A

Rubric Summary		
	4-Exemplary 3- Accomplished 2- Capable 1-Inadequate	
Features	Criteria	Average
Organization	The agency meets high degree of attention and state level requirement and evidences attention to the needs of the organization	3.6
Financial climate	The flowchart of the process shows exactly how the work is supposed to perform including communication, budgeting, and planning	3.1
Identify Prioritize goals	Processes and practices that have worked well in such as meeting, polling employees, etc.	3.6
Risk	A process that captures from beginning to end of the finance and budget function as well as the employees, agency, stakeholders, etc.	3.0
Education	Years of career experience and college or vocational	3.6
Mentoring and networking	Previous office leader allowed and designated time for this person to be shadowed and continued to be in touch	3.0
Resource	Resources are always available whether it be on OAKS, FinSource, DAS, OBM, internet, direct contact person to seek a solution	3.8
Challenge	Action plan is developed to address the challenge towards problem solving	3.3
Achievement	Meet and accomplished goals	3.2
Communication	Meetings, one-on-one with staff, open forum, etc.	3.4
	Average Total	33.8

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