### **CITY OF PORTLAND**

# Financial Reporting and Compliance Project Final Report



Prepared By
Office of Management and Finance - Bureau of Financial Services
February, 2004

### **TABLE OF CONTENTS**

		Page
•	Executive Summary	3
•	Background and Current Status	6
•	Project Goals and Scope	8
•	Findings and Recommendations  ◇ Roles and Responsibilities  ◇ Policies  ◇ Systems  ◇ Compliance  ◇ Communications and Training	11
•	Organizational Structure	25
•	Code Changes	27
•	Implementation	28
<b>*</b>	Appendices	34

#### **EXECUTIVE SUMMARY**

#### Introduction and Background

This report is the continuation of an initiative that began three years ago to improve the City's financial management activities. In 2000, under the citywide Administrative Services Review (ASR) project, central service costs, service levels and organizational structure were analyzed. One outcome was the Financial Management Framework Plan that recommended more authority and a strong compliance role for accounting. Since that time, progress has included the development of certain citywide accounting policies but the pace of progress anticipated in the Framework Plan has been slow.

In March 2003, a management letter prepared by KPMG, the City's audit firm at the time, noted poor communications between bureaus and inconsistent application of accounting standards across the City. KPMG recommended that a controller position be established with broad authority for citywide accounting and financial reporting. As a first step Council adopted a budget note and committed funding for a Controller in June, 2003.

#### **Project Goals and Scope**

To build on the direction set by the ASR project and Framework Plan and to respond to KPMG's management letter recommendations, a renewed effort has been made to implement the Framework Plan recommendations. Several steps have been taken to date including budgeting funds in FY 2003-04 for a controller, bolstering compliance activities, interviewing bureau staff for their perspective on financial reporting and control issues and surveying eight comparably sized cities regarding their accounting functions and organizational structure.

#### Findings and Recommendations

Bureau staff interviews revealed support for the proposed controller position and a strong interest in establishing citywide standard accounting policies and procedures. Bureaus look to the central accounting staff to provide leadership, direction and professional advice. There is also considerable frustration with the IBIS financial system that most would like to replace. Among many issues and suggestions, bureau staff also consistently urged regular training to ensure compliance and open communications as a means to facilitate change.

Among the eight survey cities, responses showed the cities to be on a wide ranging continuum from very centralized to highly decentralized in their accounting activities. Five of the eight cities have a controller position though the level of authority and role varies greatly. One of the effective service delivery models that emerged from the survey results works under a decentralized structure with a central policy framework and compliance function. Bureaus or departments perform daily transaction processing on a centralized financial system with processes based on best practices and citywide policies. A central internal audit function ensures a high level of compliance.

Recommendations are as follows:

#### Roles and Responsibilities

- Amend City Code to give clear authority to establish, maintain and enforce citywide policies for financial accounting transactions and reporting
- Change the role of the Accounting Advisory Committee (AAC) from a consensus process to review and comment
- Establish the Controller as the sole authority for issuing reports that disclose the fiscal condition of the City or its bureaus to external users
- Develop and establish the Controller and Accounting Division staff as leaders in citywide accounting and financial reporting
- Shift the focus of Accounting Division staff from processors and regulators to "subject matter experts"
- Establish a structure and practice for the coordination of multi-bureau projects and involve the Controller at an early stage, where appropriate
- Establish consistent use of account codes
- Establish interagency agreements between BFS and bureaus
- Establish authority to charge bureaus for tests and audits of ancillary financial systems

#### **Policies**

- Prepare and implement citywide accounting policies and procedures
- Identify best practices and set benchmarks that bureaus will be responsible for meeting

#### Systems

- Establish authority for the Controller to approve (jointly with Bureau of Purchases and Bureau of Technology Services) the acquisition of or change to systems that handle financial transactions
- Initiate a decision process regarding the future and possible replacement of the GEAC/IBIS system
- Map all business processes that involve accounting transactions
- Standardize/consolidate the number of duplicative systems that have been developed to address bureau financial service and reporting needs
- Enhance training on the technology tools used in the accounting area by the City
- Invest in systems that will enable the City to participate in e-business activities.

#### **Compliance**

- Establish a financial compliance function separate from accounting operations
- Add focused, in depth audits of bureaus' financial data and systems to the external audit contract
- Periodically test and audit financial accounting transactions in all bureaus, especially those performing and monitoring financial transactions in ancillary systems
- Report results of compliance reviews to Council at least annually, with the requirement that bureaus respond to report findings

 Develop compliance review plans based on previous bureau compliance reviews and performance measurement results

#### **Communications and Training**

- Develop a communications plan for the implementation of this organizational change
- Improve coordination and communication among the City Auditor, bureaus and the Accounting Division during the preparation of the CAFR and conduct of the annual audit process and preparation of the CAFR
- Establish and implement customer feedback mechanisms such as surveys
- Develop a citywide training program on accounting policies and procedures

#### **Organizational Structure**

Since 1990, the City's accounting operations have become increasingly decentralized with primary reporting and systems responsibilities managed by the Accounting Division and daily transaction processing handled by the bureaus. It is recommended that accounting services follow current trends in service delivery as found in the city survey. This model would continue the current decentralized approach but strengthen the relationship between bureaus and the central service provider.

Under the recommended organizational structure the same general distribution of duties would be maintained. However, stronger central administration provided by the Controller, with input from the AAC, would be developed. This model is intended to give bureaus flexibility to address their business needs. At the same time, bureaus will be held accountable for complying with all accounting and reporting policies and implementing procedures that enable accounting best practices to be achieved. This will require ongoing monitoring by the Accounting Division through a compliance review function and regular training for Accounting Division and bureau staff. Council will need to provide the authority to enable necessary corrective actions to be taken by the Controller.

The recommended structure has three components: Policy and Outreach, Operations, and Compliance Review. An iterative process designed for continuous improvement and feedback begins with development of policies and procedures. Operations would handle processing and reporting. Compliance Review would follow up with testing and recommendations for improvement. Policy and Outreach would develop compliance plans and determine needed process changes.

The proposed three and a half year implementation plan would add a total of 2 new positions to the Accounting Division not including the previously authorized Controller. It would also provide resources for more training, contract help with policy development and business process mapping, external auditor work and other recommended efforts. Estimated new costs for BFS to implement recommendations in FY 2004-05 are \$180,000. New costs for FY 2005-06 would be \$220,000. These costs do not include Current Service Level (CSL) increases or IBIS system replacement costs.

#### **BACKGROUND AND CURRENT STATUS**

The City's current organizational structure and financial practices are set through its Charter, Code and adopted financial policies. At the City of Portland, the Mayor administers the finance function. The elected Auditor is responsible for financial and performance audits and performs an oversight role for compliance.

The citywide financial management function is performed through the Office of Management and Finance's (OMF) Bureau of Financial Services (BFS). Services encompass debt management, treasury and accounting. The Bureau was reorganized in 2001 to include financial planning and budgeting responsibilities. The accounting function includes financial reporting, accounting services, and management of the City's corporate accounting systems and processes. Activities include:

- Ensuring accounting operations throughout the City result in accurate, complete and timely information
- Establishing internal controls to safeguard the City's assets against loss, theft or misuse
- Supporting the ability of operating bureaus to deliver services to Portland's citizens
- Supporting preservation of the Aaa credit rating from Moody's Investors Services
- Preparing financial reports that comply with current accounting principles and regulatory requirements
- Preparing the Comprehensive Annual Financial Report (CAFR)
- Ensuring compliance with various federal, state, and City regulations and statutes, including IRS, FLSA, City Charter and Code, City collective bargaining agreements and the like

The total reported FY 2003-04 budget for these services was \$4,616,165 and 29 FTEs.

Accounting functions provided throughout the City are highly decentralized. Currently there are an estimated 96 FTE in various accounting classifications with less than one third in BFS. In addition, bureau accounting tasks are often performed by other classifications, especially in smaller bureaus. With the exception of staffing increases initially associated with the decentralization of accounting in 1990 and new program activities undertaken by the City over the past ten years, overall FTE growth in accounting has been reduced. However, the City's financial operations over this same time period have grown substantially, as have the number and complexity of transactions. While this fact reflects higher overall productivity, it also increases the difficulty in realizing short-term cost savings in the absence of enhanced work tools, technology, and revised business processes that can more effectively address the workload issues that face service providers.

In 2000, OMF initiated the Citywide Administrative Services Review project. This included a critical analysis of the service levels, costs and organizational structure of central services. Each service area developed a framework plan. The Financial Management Framework Plan dated February 1, 2001, set a long-range vision for

citywide financial management functions and made numerous recommendations for improving the efficiency and effectiveness of these services.

The vision proposed in the Plan is for Financial Management (BFS) to be "a central service provider with the authority to establish citywide accounting policies and best practice benchmarks, and to assess accountability with established policies and standards". The Plan vision also states, "The central service provider would assist bureaus to apply best practices, and to consolidate and standardize to further reduce costs created by duplicative systems and further enhance the value of training and staff development on jointly owned systems".

Since the Plan was issued, progress has included the development of certain citywide policies, but the pace of progress has been slower than anticipated in the Framework Plan.

Other forward thinking management initiatives have been undertaken. The OMF 2002-2007 Strategic Plan was issued in January 2002. Agreed upon strategic directions include maximizing the cost effective use of technology, setting citywide standards, improving management practices and strengthening OMF leadership and management skills. In February 2003, the Council adopted the Managing for Results report that sets a framework for upgrading performance measures and improving decision making and public reporting processes.

In its audit management letter dated March 27, 2003, KPMG, the City's audit firm at the time, made observations and recommendations regarding financial management and reporting. From KPMG's experience working with the City, they believed that there is a lack of communication between bureaus and no consistent understanding and application of accounting standards across the City. KPMG recommended that a controller position be established with direct accountability and authority for citywide accounting (Appendix A). KPMG's recommendation has focused attention on the need to commit resources and take timely action toward the Framework Plan vision. Realizing this vision will be challenging; additional resources are needed, staff duties must be reorganized and Code revisions establishing new authority must be adopted. As a first step, Council adopted a budget note (Appendix B) and committed funding for a Controller position in June 2003.

This approach charts a new course for management and direction of accounting services in the City. It will require a new way of thinking for all involved parties—the City Council, the Accounting Division, and the bureaus. With a significant commitment of time, effort and resources this vision can be achieved. The realization of such a vision will result in a more rational approach to service delivery, one that develops a synergy between the needs of the bureaus and the strategic direction and control exercised by the central provider. The result will be a more efficient and cost-effective model for providing City accounting services.

#### PROJECT GOALS AND SCOPE

In a renewed effort to move toward implementation of the Framework Plan, BFS has developed a work plan and assigned staff to facilitate needed changes. Four project goals have been set for this effort to clarify and focus central authority over citywide financial reporting and compliance efforts and requirements. Those goals are:

- 1. Establish accounting principles, policies, procedures and practices that are consistently applied across the organization. Manage inputs to financial accounting reports to insure their integrity and consistency.
- 2. Establish appropriate levels of internal control that are periodically monitored.
- 3. Standardize computer systems used for financial management. Simplify and standardize other processes and systems to ease future migration to a new ERP.
- 4. Further develop and establish Accounting Division staff as subject matter experts to better serve bureau and citywide needs and to better retain staff.

The following steps have been taken to date:

- Resources have been included in the FY2003-04 adopted budget for the creation of a controller position.
- Affected bureaus have prepared and are implementing work plans addressing audit management letter recommendations.
- Certain citywide accounting policies have been drafted and reviewed with the City's Accounting Advisory Committee (AAC).
- Eight cities of comparable size and complexity have been surveyed regarding their accounting functions and organizational structure. They include: Charlotte, Cincinnati, Denver, Kansas City, Phoenix, San Antonio, San Francisco and Seattle.
- Key bureau and OMF staff has been interviewed for their perspective on financial reporting and control issues and the planned implementation of a Controller position with a high level of authority.

#### City Survey

Eight cities were surveyed to gather information on their accounting functions and organizational structure. Five of the cities (Charlotte, Cincinnati, Denver, Kansas City, and Seattle) are used for comparison in the City's Services Efforts and Accomplishments (SEA) reporting. San Francisco, Phoenix and San Antonio were selected because they each have a controller position.

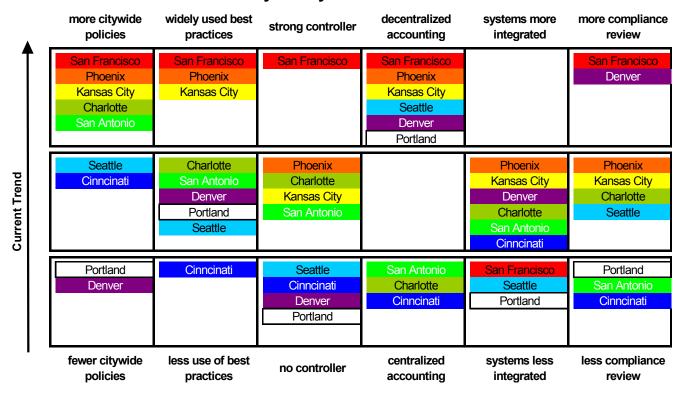
The survey was conducted in August and September 2003. A standard survey form (Appendix C) was completed by a high level accounting or finance manager for each City. Cities provided supplemental materials including financial policies, organizational charts and job descriptions. A brief narrative summary of results is provided in Chart 1.

# Chart 1 City of Portland Comparative City Survey Results Financial and Reporting Control

							Staff FTE's					
City	Controller	Auditor	CFO	Accounting Manager	Central / Decentral	Central Accounting	Depts	Compliance	Internal Audit - Structure	Enforcer Title	Central System	Stand Alone Systems
Charlotte	Yes	Appointed	Yes	Yes	Centralized	32	57	Internal Audit task	Separate Dept Under City Manager		GEAC Financial System	Utility Billing
Cincinnati	No	No	Yes	Yes	Centralized	26	unknown	5	Under Finance Director	All Managers		Budget, Purchasing, Tax Collection
Denver	No	Elected	No	No	Decentralize d	38	106	19, internal audit	Office of the Auditor 80 Total Employees	Auditor, Mayor	PeopleSoft Financials/HR	A/R, Cashiering, Revenue Collections, BRASS (Budget)
Kansas City	Yes	Appointed	Yes	Yes	Decentralize d	32	70-80	2	Under City Manager 1 FTE	Auditor, Budget & Research	AFN Acctg & Financial Reporting	Project Mgmt, Cost Acctg, Special Reporting
Phoenix	Yes	Appointed	Yes	Yes	Decentralize d	58	unknown	28 auditors	Auditor Department 34 Total Employees	All Managers	SAP	Vehicles, Water Customer Info, Tax/License Registrat.
San Antonio	Yes	Appointed	Yes	2 Assistant Controllers	Centralized	65	unknown	City Auditor's Office	City Auditor's Office	Controller, City Auditor, City Mgr	SAP Implementation Target 2004	Equipment Maintenance, Budget, Project Tracking, Inventory,
San Francisco	Yes	Controller, Appointed	Controller	Yes	Decentralize d	58	64 depts 1- 62	35 accounting staff	Controller's Office	Controller, Finance & Audit Committee of Board of Supervisors	FAMIS G/L	Budget, Reports, Purchasing, Fixed Assets
Seattle	No	Appointed	Yes	Yes	Decentralize d	17.5 Exc. Payroll & Treasury	214.25 Excluding Payroll	8	City Auditor	Finance Dir & Executive Admin	G/L, A/P, PO, Project Costing,	Inventory, Fixed Assets, Billings
Portland	No	Elected	Yes	Yes	Decentralize d	29	67		City Auditor		No ERP, GEAC/IBIS	A/R, Reporting, Project Tracking, Work Orders

Survey results show a wide variation in approaches to managing accounting services. Six primary characteristics or features of the surveyed cities' accounting functions and structure were used to create a trend continuum (see Chart 2). Survey findings are noted under each section of recommendations.

## Chart 2 City of Portland City Survey Trends



#### **Bureau Comments**

Twenty interviews of bureau and OMF staff plus the City Auditor were conducted in September and October 2003. A listing of those interviewed is in Appendix D. A standard interview outline was tailored to each group of interviewees. Those groups were: Accounting Division supervisors, BFS managers, selected bureau staff and the City Auditor.

Accounting Division supervisors were interviewed first to document division roles and responsibilities and identify issues to pursue in bureau interviews. Bureau staff was selected for interviews based on the extent of interaction with the Accounting Division and their knowledge of citywide and bureau accounting and financial reporting issues. The City Auditor has charter-mandated responsibilities that interface with the Accounting Division. That interview explored how to appropriately sort the Auditor's accountability and independence from strictly management and finance functions.

#### FINDINGS AND RECOMMENDATIONS

The following findings and recommendations are organized into five general categories that are: Roles and Responsibilities, Policies, Systems, Compliance and Communications and Training.

#### **Roles and Responsibilities**

The City's organizational structure (Appendices E and F) places the Accounting Division in BFS under the OMF. The Chief Financial Officer (CFO), head of the BFS, supervises the Accounting Manager. The CFO reports to the Chief Administrative Officer (CAO) who directs OMF. Current Code language gives the CAO full authority to establish policies with Council approval. In addition, the Charter clearly puts the CFO in charge of maintaining financial records and providing reports to the Council. The Accounting Manager class specification includes responsibility for formulating and implementing accounting policies. Other duties listed include operations oversight and supervision of staff.

A combination of historic practices, the introduction of technology, resource constraints and other factors has led to a decentralized financial structure for accounting and financial reporting in the City. Consequently, the CFO and Accounting Division roles, as a matter of culture and current practice, are weaker than what is necessary for effective and efficient citywide financial management. The CFO and Accounting Manager lack explicit authority to interpret and enforce policies, conduct compliance reviews and control the issuance of reports that disclose the fiscal condition of the City or its bureaus to external parties.

The current division of duties between the central or corporate operation (Accounting Division within BFS) and the bureaus can be summarized as follows (also see Chart 3):

#### Accounting Division:

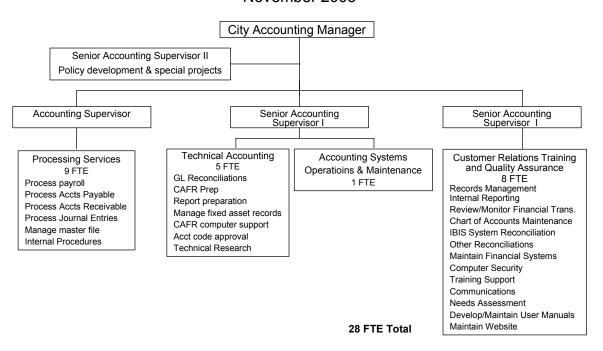
- External Reporting, Comprehensive Annual Financial Report (CAFR)
- □ Development and maintenance of city-wide financial system (IBIS)
- Processing and transaction support for small bureaus and data integration for key accounting processes (payroll, accounts payable, accounts receivable, etc.)
- Policy development and guidance
- Training and support

#### Service Bureaus:

- Data entry and transaction processing (payroll, accounts payable, accounts receivable, etc.)
- Bureau specific accounting support:
- Inter-agency billings
- Cost accounting
- Development and maintenance of off-line financial/accounting systems
- Ad hoc external financial reporting

#### Chart 3

# Current Organizational Chart Office of Management and Finance Accounting Division November 2003



The Accounting Advisory Committee (AAC) comprised of bureau staff responsible for accounting and financial matters meets monthly to identify and coordinate solutions to issues. The group has also worked with the Accounting Division to develop policies addressing various accounting functions such as accounts receivable and petty cash.

#### **Bureau Comments**

Bureaus emphasized their unique or operationally specific needs and issues. For example, Parks collects revenue at 35 different sites and employs as many as 1000 part-time employees. The Bureau of Licenses has few staff but manages receipt of over \$50 million of annual revenue to the City. Bureaus find that their business needs often require technology solutions outside of the central accounting system.

Staff frequently commented that they value the AAC forum but want to see more results from their participation. They support the development of citywide accounting and financial reporting policies that can serve as a framework for their bureau specific policies. Bureau staff also noted their need for reliable, high level professional accounting advice.

#### City Survey Results

Among surveyed cities, the role and responsibilities of accounting varies greatly. See Chart 2 on page 10, which arrays the cities on several key accounting trends for comparison. In the survey of other cities, five of the eight cities have a decentralized accounting organizational structure. Three cities have no Controller while the San Francisco Controller, for example, has broad powers and authority. Except for San Francisco, all surveyed cities have an internal audit function separate from the Controller. Where there is no Controller, audit activities are also separate from accounting. The most efficient and effective structure appears to be where transaction processing is decentralized and guided by citywide accounting policies and subject to central compliance oversight.

Recommendations regarding roles and responsibilities are:

 Change the City Code to give clear authority to establish, maintain and enforce citywide policies for financial accounting transactions and reporting

A strongly worded Code revision, while not absolutely necessary, would serve to explicitly provide Council support for a culture shift and position BFS to initiate other needed changes. Specifically, the Accounting Manager duties should be clarified and expanded to serve as a Controller for the City. Other recommendations provide further details on how this position would fit in the organization and the extent of its authority. A proposed class specification is in the appendices and organizational charts are on pages 29, 30 and 31.

• Change the role of the AAC from a consensus process to review and comment

The Accounting Advisory Committee provides a valuable forum for information exchange, coordination and problem resolution. The group has recently participated in drafting several accounting policies that have not yet been implemented. Many participants are frustrated with the slow pace of policy development that has been driven in large part by the current consensus process. Changing the role of the AAC to a review and comment role would encourage bureau staff to bring issues to the group for discussion but allow the Accounting Division to move more quickly to establish citywide policies and respond to other issues identified by committee members.

• Establish the Controller as the sole authority for issuing reports that disclose the fiscal condition of the City or its bureaus to external users.

In the last few years there have been numerous cases of fraud and misrepresentation of financial condition by publicly traded companies. Public awareness has been heightened regarding the role of auditors and the importance of proper financial reporting. The scandals in the private sector resulted in passage of the Sarbanes/Oxley Act that requires auditor independence and sets standards for financial reporting by publicly traded companies. The provisions of the Act set a

benchmark that the City should meet or exceed in its accounting and financial reporting activities.

One of the greatest risks in financial reporting is ensuring the accuracy of source information. Whenever reports are issued to external parties, they can be construed to represent the City. Conflicting, incomplete or erroneous reports can negatively impact the City's bond ratings and public perception of the City's management capability.

While proposed changes in this report are aimed at insuring the integrity of the City's financial reports, there currently is no official source of reports. Various bureaus, offices and elected officials can disseminate reports to external users at any time. The City can reduce its exposure to inaccurate reporting and disclosure by formally naming one party responsible for approving reports that disclose the fiscal condition of the City or its bureaus to external users. All report issuance should also be coordinated with the BFS Debt Management staff to ensure consistent presentation of information and to ensure compliance with ongoing SEC disclosure guidelines.

#### Develop and establish the Controller and Accounting Division staff as leaders in Citywide financial reporting and accounting

Leadership is needed to take charge of many current and emerging accounting needs and issues on a citywide basis. Bureaus seek and need professional advice and support. Accounting and financial reporting needs are varied and complex. External rules and professional requirements are constantly changing.

To ensure a high quality of service, the City should upgrade the positions and professional credential requirements for Accounting Division staff. This change is needed for two reasons. First, most bureaus indicated in interviews that they look to central staff as subject area experts. They expect and need these staff to serve as a resource and as expert supplements to their own expertise. The City has several large bureaus with high-level professionals that have been disappointed and/or frustrated with inaccurate or poor quality advice from this group. This weakens the image of the Division and causes the bureaus to look elsewhere for direction and assistance. It can also result in errors, inaccuracies and inconsistencies.

The second reason to upgrade the Accounting Division positions is to better retain staff. For many years, the Accounting Division has served as a training ground from which bureaus recruit staff. They are able to do this because they have higher-level positions providing advancement opportunities and often have a better funding environment. There are advantages to encouraging internal transfers that should not be dismissed. However, constant turnover and subsequent recruitment and training efforts reduce the quality and quantity of the Accounting Division's work and service to bureaus. It is also recommended under the Communications and Training section of this report that a training program be developed to build the knowledge and skills of all City accounting staff.

#### • Shift the focus of Accounting Division staff from processors and regulators to "subject matter experts"

Bureau accounting staff strongly desires and needs direction and assistance from central staff. Both the Accounting Division staff and bureaus will need a paradigm shift to make the working relationship effective. The City's current culture has placed central staff in a processor and regulator role. They need to be repositioned as "subject matter experts" and consultants to the bureaus. This approach will be especially effective in conjunction with separate internal compliance review staff. Separating compliance testing from daily operations will encourage the bureaus to seek advice from central staff while providing them the support they need. A classification review will be needed to ensure that classifications and compensation are aligned with the new role.

## • Establish a structure and practice for the coordination of multi-bureau projects and involve the Controller at an early stage, where appropriate

The City has many complex projects that involve multiple bureaus. There is no regular practice or structure for ensuring timely and proper involvement of central staff in these projects that have financial and accounting impacts. Often, such projects would greatly benefit by including the Controller or a designee at an early stage. Examples include grant-funded projects, IT acquisitions and major IT upgrades.

#### Establish consistent use of account codes

The Accounting Division is currently responsible for creating new funds, managing the chart of accounts and assigning account codes. However, bureaus have developed a variety of coding methods to meet their unique business needs. Consistent approaches to to the use of account codes will be increasingly important as the City moves toward implementation of a new financial system.

#### Establish interagency agreements between BFS and bureaus

Interagency agreements are commonly used among City bureaus to define their working relationship and mutual expectations. This is also the means to set the amount to be paid by a bureau for services from the central provider. Most other OMF bureaus and services have moved away from the overhead cost allocation model and have established interagency agreements with service bureaus. In the situation where the Accounting Division is setting new standards of performance for bureaus, such agreements could be used to help establish a commitment to perform by bureaus. Bureaus may feel more of a partnership when Accounting Division service levels are also put in writing. The agreements would serve to showcase the range of services and expertise available from the Accounting Division. A Cost of Service Study would be needed prior to implementing this recommendation.

## • Establish authority to charge bureaus for tests and audits of ancillary financial systems

As the Controller focuses on compliance and financial reporting, all systems providing financial report information will need to be tested and audited. Bureaus using ancillary systems should pay the costs associated with verifying the validity of their information. To the extent such systems are essential to the business function of a bureau, this is a legitimate and fair way to cover this expense. Where an integrated system solution is available, that can serve the needs of multiple bureaus, such charges could serve to motivate bureaus to pursue the most cost effective approach.

#### **Policies**

Policies establish the foundation for the various financial processes and activities undertaken by the City. The City's approved policies in the area of accounting and financial reporting are currently somewhat externally focused, dealing primarily with financial reporting and auditing standards. These were adopted by Resolution #35005 under the City Comprehensive Financial Management Policy. The City lacks a comprehensive set of accounting and financial reporting policies that govern accounting practices citywide and delineate accounting responsibilities between the bureaus and Accounting Division of BFS. Some policies have been drafted with input from the AAC (Accounting Advisory Committee) but they have not been formally adopted or officially implemented.

Over the last two years, the Bureau of Human Resources (BHR) has centralized many of its services and developed citywide HR policies. As part of that initiative, these policies were codified as administrative rules and posted on the Internet for easy access.

#### **Bureau Comments**

In bureau staff interviews, the HR Administrative Rules were frequently cited as a good model for setting standardized citywide policies. Also, bureau staff often indicated they look to citywide policies and procedures as a framework for addressing more specific bureau needs. The AAC was cited as a forum useful for raising issues, sharing information and participating in policy development.

#### City Survey Results

The survey of cities revealed that the scope and means of implementation for accounting policies and standards vary among the cities contacted. Both San Francisco and Denver, for example, have comprehensive fiscal rules available on-line. San Antonio is compiling policies and developing new ones in conjunction with an ERP implementation scheduled for completion in October 2004.

Generally, policies are part of a city's Municipal Code and are adopted by the governing body. San Antonio and Seattle are exceptions. Seattle's financial policies, for example, are adopted by the City Council while accounting policies are set by the Accounting Manager and are not adopted by the Council. Among the cities surveyed, standards and procedures are set by the City Manager, Finance Director, Auditor, Controller or Accounting Manager.

Recommendations regarding policies are:

#### Prepare and implement citywide accounting policies and procedures

Accounting Division staff has been working for the last two years with the AAC to develop citywide accounting policies. The consensus process has been slow, and incremental, and has not resulted in an adopted comprehensive set of policies. There is strong agreement that such policies and corresponding procedures are needed. When policies are adopted, they should be codified and posted for easy reference. HR's approach and experience is a good model that Bureau staff has reported to be useful.

## Identify best practices and set benchmarks that bureaus would be responsible for meeting

Implementing best practices would aid in standardizing procedures and practices across the City. An important role of the Controller will be the development of performance measures based on internal or external best practices and the need to meet or satisfy rules or regulations that affect the City's accounting activities. At this time very little benchmark information exists for the City's accounting processes. Use of best practices and performance measures will help ensure improved performance and the implementation of improved service delivery options. They will also facilitate the transition to a new financial system.

Most cities surveyed report using best practices. Phoenix and Kansas City report using best practices, as they are embedded in their Enterprise Resource Planning (ERP) systems. San Antonio is in the process of implementing its ERP system based on best practices. Cincinnati and Seattle are ad hoc in their use of best practices.

#### **Systems**

The most critical challenge to improving the efficiency of the City's accounting service delivery model is technology. The City's existing financial system (IBIS) is 13 years old, based on yesterday's technology, and lacking functionality needed to meet the current and future business needs of the City's bureaus. This has contributed to the development of a myriad of off-line and separate systems that work around the shortcomings of IBIS or address specific bureau needs without consideration of the needs of other bureaus.

Accounting services at this time are highly decentralized and vary from bureau to bureau. In general, certain "core" processes are common to most bureaus. These core processes include:

- Payroll processing
- Accounts receivable processing
- Accounts payable processing

In many cases elements of these core processes are undertaken at the individual bureau level and are integrated centrally into the City's financial information system (IBIS). For example, most payroll data is input at the bureau level and then transferred electronically into the City's central system where payroll information is compiled, data is reviewed, edits are performed and checks and remittances are processed. For some smaller bureaus, the Accounting Division provides data entry and processing services. For larger bureaus their own staff conducts much of the data entry and processing activities. In some instances, even the core processes are handled by bureaus completely outside of the City's central financial system. In effect, some bureaus maintain a separate accounting system that duplicates or expands upon the functionality of IBIS.

In addition to the core processes that are common to most bureaus, many bureaus have individual processes specific to their business needs. Examples of these individual processes include:

- Interagency billings
- Contract management
- Project tracking
- Cost accounting
- Financial accounting and reporting

These individual accounting processes typically are satisfied in one of three ways: through the capabilities of IBIS, a combination of IBIS information and specially adapted spreadsheets and/or databases, or a third party financial system that may use IBIS only as an intersecting point for financial data. Consequently, over time the City has developed a number of separate, and in some cases duplicative, systems that limit the free flow of financial data and information and the ability to share knowledge and training opportunities among accounting staff across bureau lines. In the absence of a more robust or fully featured centralized financial information system this approach, while serving individual bureau needs, limits the ability to achieve higher levels of productivity and efficiency citywide. In order to improve services and reduce costs, this approach to technology tools and investment will need to change.

#### **Bureau Comments**

Among the bureaus interviewed there was strong support for replacing IBIS. Users are aware of the many recent developments in ERP software that they feel would better serve their needs. Staff specifically cited on-line real time queries as a high priority as well as the ability to drill down or summarize data. Most said that the staff time spent

compiling financial information from various sources in different formats outweighs the cost of a new system.

#### City Survey Results

Surveyed cities report having central financial management systems. Denver (PeopleSoft) and Phoenix (SAP) have installed ERP systems. San Antonio has targeted October 2004 to go live with SAP. All surveyed cities have various ancillary systems to meet specific business needs and no city has all systems fully integrated. The following is a list of functions cited by two or more cities as requiring a separate system:

- □ Budget (4)
- □ Purchasing (2)
- □ Tax collection (2)
- \*Accounts Receivable/Billing (2)
- \*Project management/tracking (2)
- □ \*Special reporting (3)
- □ Inventory (2)
- □ Fixed assets (2)

The City also has separate work order and contract management systems. Surveyed cities indicated problems associated with separate systems include extra manual effort, reconciliation problems, limited data access and limited system support. Respondents expressed concern for additional risk of error and turnover of key system support staff.

Recommendations regarding systems are:

 Establish authority for the Controller to approve (jointly with the Bureau of Purchases and Bureau of Technology Services) the acquisition of or change to systems that handle financial transactions

Bureau of Purchases and Bureau of Technology Services (BTS) are currently authorized by Code to approve all hardware and software purchases and associated professional consulting services. The Controller needs approval authority on par with BTS and Bureau of Purchases for those systems that are used to perform, monitor and report financial transactions. This authority will help ensure that software and systems meet City standards for financial reporting, that opportunities to collaborate between bureaus are identified and that citywide consistency and integration are considered.

• Initiate a decision process regarding the replacement of the GEAC/IBIS system

The City's central financial management system is based on old technology. Many complain about its inflexibility and lack of real time data. Some claim that its inadequacies cause them to create "shadow" systems for tracking financial

<sup>\*</sup>Denotes Portland's stand alone system functions.

information. These require duplicate data entry and may waste valuable staff time in maintaining the data, hardware and software.

In addition, system weaknesses have caused bureaus to purchase ancillary systems that do not always interface with IBIS. These systems are at the core of concerns about the integrity of financial data and reporting for the City.

Although there may be front and back end solutions that will improve the usefulness of IBIS and functionality that has not been fully utilized, the fact is that at some point the system will need to be replaced. There are many reasons for not considering a new system at this time. Recent systems implementation challenges limit the City's appetite for a large-scale acquisition and installation effort. There is uncertainty in the future of some of major ERP provider companies. The economic downturn is dragging on and the City's financial outlook is tight.

The planning phase for a large system implementation can be quite long. BFS, in collaboration with BTS, needs to be proactive in assessing the need and determining the cost of not changing systems. Considerable resources go into the work-around and supplemental efforts caused by the real or perceived problems with the current system. Addressing these head on would be advantageous to BFS in demonstrating leadership and responding to bureau needs and interests.

Taking the lead to put in place a decision process would help ensure that the City's long-term system needs has a framework for being addressed. When it is determined that a new system should be purchased, the City must make sure that:

- all functions of a new or improved system are fully utilized
- business processes of the City are adjusted where necessary to conform to the processes supported by the new or improved system
- all City bureaus are trained on and in turn use the new or improved system
- the new or improved system is supported internally by both BTS and the Accounting Division
- off-line systems are eliminated, further standardized or consolidated

#### Map all business processes that involve accounting transactions

Clearly understanding how things are done today is an important first step in assessing areas for improvement. Some work on this that was done during the ASR project may serve as a starting point. This is a major undertaking that should involve the stakeholders of each process. A process map should identify redundancies, gaps and unnecessary steps in the City's current business processes. Preparing each process map will engage participants in understanding the needs of central and bureau staff. The results will also provide the foundation for creating more consistency in how things get done. Some bureaus may have current process maps available or may choose to create them to facilitate this effort.

Ultimately, such an effort will better position the City for selecting and implementing a new financial system. By simplifying processes and establishing a better understanding of the City's needs, the City is more likely to get the best system "fit". This will also provide the opportunity to utilize best practices in any process changes.

#### Standardize/consolidate the number of duplicative systems that have been developed to address bureau service needs

In the short-run, this will require an inventory and analysis of current systems to determine the "best" systems with a goal of reducing the number used and supported. This will require bureaus to adjust their business needs to achieve greater efficiency and benefits for all. Continued use of separate systems to meet the needs of each bureau is inconsistent with Council's directive to achieve greater efficiencies in the area of administrative services.

#### Enhance training on the technology tools used by the City

By standardizing/consolidating systems it becomes more cost-effective to invest in training employees in the use of these systems. The knowledge base is leveraged over a greater number of bureaus and the ability to share human resources between bureaus to better match workload needs is enhanced.

## Invest in systems that will enable the City to participate in e-business activities

Where technology investments are required, they should anticipate and facilitate the current trend toward electronic business transactions. This will position the City to provide more efficient service to the public, vendors, other governments and others who regularly interact with the City. This will likely mean the development of a coordinated/standardized approach to ensure that such activities undertaken by individual bureaus can be integrated into the existing City financial system.

#### **Compliance**

It is the intent to establish an organizational model that gives bureaus the flexibility needed to address their business needs while holding bureaus accountable for complying with all accounting and reporting policies and for implementing business processes that will enable accounting best practices to be achieved.

Key to the success of this service delivery model is the ability to ensure that bureaus operate within policies and adhere to best practice standards. This will require ongoing monitoring by the Controller. If bureaus fail to meet adopted policies or practices, or to attain performance standards, the Controller will be responsible for working with the bureau to develop a plan that will enable the bureau to achieve compliance within an appropriate time period. If compliance is still not attained then it may be necessary to identify other service delivery options, including a centralized service model. Because

compliance is key to the long-term success of this model, the Council will need to provide the necessary controlling authority to enable such corrective actions to be taken.

#### **Bureau Comments**

In bureau interviews, staff emphasized that they work hard to comply with policies and procedures. Many suggested that the key to achieving compliance is training and communication.

#### City Survey Results

Results of the city survey show some cities rely on post transaction audits for compliance checking. Kansas City and San Francisco strive for an environment where transaction processing is decentralized with central compliance oversight. However, Kansas City has not conducted as many compliance reviews as planned due to budget constraints. San Antonio is also aiming for a centralized/decentralized model with implementation of SAP in 2004. They currently do little compliance checking. Four cities report compliance responsibility is part of the internal audit function (San Antonio, Phoenix, Denver and Charlotte). At San Francisco, a majority of the accounting staff is involved in compliance tasks.

#### Compliance Recommendations

Recommendations regarding compliance are:

## Establish a financial compliance function separate from accounting operations

Additional testing and auditing of bureau financial accounting transactions is needed to ensure consistency and integrity in reporting. Various models for addressing this need were discussed with the City Auditor. The City Auditor does not plan to include this type of testing and auditing in his work plan. He supports a two-pronged approach with a financial compliance review function under the Controller and additional targeted work by the City's external auditors.

#### • Add focused, in depth audits of bureaus' financial data to the audit contract

In addition to the financial compliance work that is proposed to examine bureau transactions, the contract with the City's external auditors for the annual audit should be amended in the future to include some targeted in depth testing and review of selected bureau accounting and financial reporting systems. This can supplement and verify the work of the compliance reviews.

 Periodically test and audit financial transactions in all bureaus, especially those performing and monitoring financial transactions in ancillary systems

In many instances, financial transactions are processed in systems separate from the primary IBIS system. Most of these systems interface with IBIS but several do not. In order for the Controller to determine compliance with City policies and procedures and to insure transparency and integrity of data used to compile the CAFR, routine tests and audits of these separate systems should be performed. It is recommended elsewhere in this report that internal financial compliance staff undertake audits and that bureaus provide funding for these audits and reviews.

• Report results of compliance reviews and audits to Council at least annually and require Bureaus to respond recommendations

Results of routine compliance reviews should be presented to and discussed with Council at least annually. Where changes are recommended, bureaus should respond in writing to the Council. The annual report should be presented in conjunction with the external auditor's management letter to the Council. Additional reports may be presented at any time.

• Develop compliance plans based on bureau compliance reviews and performance measurement results

Where audits and tests reveal compliance issues, the Controller should work with the affected bureau to determine appropriate corrective actions. Actions could include policy and/or process changes as well as training. Formal plans with timeframes, tasks and assigned responsibilities will help insure compliance is attained.

#### Communications and Training

Information sharing and forums for input and dialogue are an integral part of efficient and effective operations and can be used to strengthen the relationship between the bureaus and the Accounting Division. A change environment requires additional attention to communications and training both internal to BFS and in relation to the bureaus.

#### **Bureau Comments**

Bureau staff expressed strong interest in training as a way to enhance their efficiency and effectiveness. Accounting Division supervisors stressed the value of educating bureau staff on policies, procedures and accounting standards. One-on-one training was credited with getting new employees off to a good start in their work. Accounting Division supervisors also urged training for division staff to boost their ability to support citywide needs and to retain staff. A training program similar to San Francisco's was strongly endorsed. However, it was noted that funding cuts have recently decreased training opportunities. Numerous bureau staff stressed the importance of communication between the Accounting Division and bureaus and between bureaus for addressing business needs, understanding issues and collaborating on solutions.

#### City Survey Results

Training was frequently mentioned as a key element in improving compliance with policies and procedures. In addition, as cities have decentralized and automated transaction processing, training has aided in upgrading accounting skills. For example, San Francisco has a full-scale program that includes a curriculum on general governmental accounting and municipal administration. It is taught by City staff and provides rotating placement in City departments for practical experience. The program has graduated 59 fully trained governmental accountants since its inception in the 1990's.

## Develop a communications plan for the implementation of this organizational change

A move for more central authority and control over bureau financial activity will create a change from the current culture. The implementation strategy needs to include a plan for communicating planned changes to current accounting practices. This should be in place prior to any action. The plan should describe specific actions and methods for involving affected parties, explain the changes and solicit feedback. Comments from interviews with BHR suggested that they did not adequately communicate and market their new structure prior to implementation. BHR is now working to address these needs. Based on lessons learned from BHR, a communications plan is needed that includes the following:

- Explain how the change benefits the bureaus
- Explain the cost and workload impact on the bureaus
- Describe proposed staff changes for both central and bureau staff, if any

#### Improve coordination and communication during the preparation of the CAFR and conduct of the annual audit

Timely and accurate preparation of the CAFR is dependent on good communication and cooperation between the bureaus and the Accounting Division. Currently, the audit schedule is made widely available and the AAC receives monthly updates. Additional regular mechanisms for information sharing would speed the work and allow bureaus to better anticipate information requests. Suggested means are:

- Weekly staff meetings including representatives from bureaus, the Accounting Division and the Office of the Auditor
- Weekly e-mail updates to bureaus and key staff

#### Establish customer feedback mechanisms such as surveys

Solicit periodic feedback on services provided to identify customer issues, determine training needs and demonstrate BFS' commitment to responding to bureau needs.

#### • Develop a citywide training program on accounting policies and procedures

Training is a key element in promoting compliance with policies and procedures. Once policies and procedures are in place, a comprehensive and ongoing training program is needed to help bureaus succeed in complying. Training should be tailored for large and small bureaus and include Accounting Division and other BFS staff. This could be delivered through on-line and self study programs as well as in a traditional classroom format. Courses could target problem areas and topics requested by staff. When adequate resources are available, a program resulting in a completion credential would be beneficial in building staff competencies and would further promote consistency in citywide accounting practices. Special efforts should continue in orienting new employees.

#### ORGANIZATIONAL STRUCTURE

#### **Existing Structure**

The Financial Services functional area uses a combination of centralized and decentralized organizational models. Debt and Treasury Management services, although coordinated with individual bureaus, are provided centrally. For example, the City maintains a single investment pool under management of the City Treasurer into which all City funds are deposited. Individual bureau cash balances are maintained and reconciled daily and interest earnings are distributed based on daily balances. Debt management activities (issuing bonds, maintaining investor relations, complying with SEC and IRS regulations, etc.) for all City bureaus and agencies are managed by the Debt Manager. Bureau staff, under direction of the City's Debt Manager, may be involved in bureau-related financing activities associated with the issuance of short and/or long-term debt obligations.

Since 1990, the City's accounting operations have become increasingly decentralized with the primary reporting and systems responsibilities managed by the Accounting Division while much of the day-to-day transaction processing needed to support the business needs of some of the bureaus are handled by the bureaus themselves. This approach has resulted in little duplication in accounting effort (the Accounting Division typically does not re-enter or re-do work done by the bureaus). It has, however, resulted in duplication in the area of off-line systems, weak accounting policies and controls, and a fractured vision of how best to ensure that best practices are developed and applied to citywide accounting services. Current organizational charts of the City and OMF are in Appendices E and F.

In surveyed cities that are decentralized, transaction processing that is performed on a centralized system within a citywide policy framework allows for best practices to be employed. A high level of compliance is attained through training and easy access to policies and procedures and compliance reviews.

#### **Recommended Structure**

It is recommended that the City's accounting and financial reporting services be delivered based on a service delivery model that continues the current decentralized approach but strengthens the relationship between bureaus and the central service provider.

Under the recommended organizational structure the same general distribution of duties would be maintained. Chart 3 shows the current structure, responsibilities and staffing level. However, stronger central administration provided by the Accounting Division would be developed in the following areas:

- citywide accounting policies, including GASB requirements and individual policies dealing with accounting issue areas
- Establishment of accounting best practices and benchmark standards
- Standardization/consolidation of off-line accounting and financial reporting systems
- Position review of city-wide accounting hires to ensure appropriate classification and consistency across bureau lines
- Development of training programs to improve bureau accounting skills and upgrade Accounting Division expertise for "subject matter experts"
- Internal review and audit to determine bureau compliance with policy and reporting requirements

This service delivery model is intended to give bureaus the flexibility needed to address their business needs. However, bureaus will be held accountable for the delivery of service by complying with all accounting and reporting policies and by implementing business processes that will enable accounting best practices to be achieved. A key element of this model (decentralized processing within a centralized policy framework) is an ERP system implemented using best practices. Such a system forces a high degree of standardization because more efficient, modern business approaches are embedded in the software.

The recommended accounting structure has three components: Policy and Outreach, Operations and Compliance Review. An iterative process designed for continuous improvement and feedback begins with development of policies and procedures. Policy and Outreach staff would set the framework for citywide direction through central policies, procedures and standards. Under the leadership and direction of the Controller, benchmarks and performance measures would be established with input from the AAC. Easily referenced direction setting documents and regular training would be used to facilitate and encourage compliance.

Operations would have four sections to manage and process all routine and ongoing citywide accounting activity. The processing section would perform the central transaction processing or oversight for payroll, accounts payable, accounts receivable and journal entries. The reporting section would reconcile the general ledger, maintain

fixed asset records, and prepare and issue financial reports and the CAFR. The quality control section would perform reconciliations, maintain records and review and monitor transactions. Finally, customer service staff would provide training support and communications, develop user manuals and maintain the Accounting Division website.

Compliance Review staff would conduct audits and test for compliance with citywide accounting policies and adequate internal controls. They would follow up by making recommendations for improvement based on their findings and input from Accounting Operations and Policy and Outreach staff. Policy and Outreach would then develop compliance plans and determine changes that are needed thus closing the loop on the business processes. Changes could include policy revisions, process modifications and/or training.

The objective of strengthening the role of the Accounting Division is not designed as a way to centralize service delivery, but instead is designed to ensure that services are delivered in a more consistent, efficient, and standardized manner. This approach does not lead with the premise that "one size fits all". It does, however, recognize that stronger "over-arching" direction is needed to ensure that over time the benefits of consistency and standardization can be achieved. Over time this organizational model should produce stronger service delivery at lower cost and pave the way for implementing a city-wide financial system that would serve much if not all of the City's business needs.

#### **CODE CHANGES**

In order to provide clear authority for the Controller to implement the recommendations of this report and assume a leadership role in improving the City's accounting and financial reporting efforts, several City Code revisions are proposed as follows:

- A Controller position shall be established in the Office of Management and Finance under BFS. The Controller shall work at the direction of the Chief Financial Officer who reports to the Chief Administrative Officer.
- The Controller shall act to ensure the integrity of financial data and reports of the City and that such financial data and reports fully disclose all required information. The Controller shall authorize all financial reports that disclose the fiscal condition of the city or its bureaus to external users including the Comprehensive Annual Financial Reports (CAFR), the Single Audit Report and other reports required by federal, state and local regulations.
- The Controller shall establish, maintain and enforce citywide policies, procedures, practices and rules for all financial transactions and reporting. The Controller shall be the final authority for interpretations of accounting and financial reporting policies and practices, with such interpretations binding on all City bureaus.

- The Controller shall conduct tests and audits of such transactions throughout the year in all bureaus and at any level of detail. Tests and audits shall measure transaction accuracy, timeliness, and completeness, adequacy of internal controls and compliance with citywide accounting and financial reporting policies, procedures, practices and current professional accounting standards.
- The Controller shall report test and audit findings and make recommendations to the City Council at least annually.
- The cost of auditing City financial transactions and financial systems will be budgeted within BFS and will be allocated to City bureaus. The Controller will coordinate this audit and compliance work with the City Auditor.
- The Controller, in cooperation with the BTS Director and Bureau of Purchases Director, shall review and approve the purchase of systems or changes to systems used to track and record any financial transaction.
- The Controller shall be consulted by BHR regarding each action to create, classify or change the duties or compensation for any City position primarily involved in accounting duties.

#### **IMPLEMENTATION**

To implement the recommendations of this report and achieve the 2001 Framework Plan vision, additional staff and other resources are needed. A three and a half year implementation plan is proposed that recognizes the City's current financial condition and transition requirements. Appendix G portrays the general tasks and timeframes for the recommended implementation. Work elements and financial impact are detailed by year. Items requiring additional new BFS budget resources are footnoted.

The Controller position is needed to provide strategic direction and leadership for citywide accounting functions. Establishing citywide policies and procedures and initiating compliance review activities will be top priorities. It is proposed that the Accounting Manager position (realigned as Operations Manager) handle daily operations oversight and issues resolution to allow the Controller to focus on these priorities. This would require additional new resources.

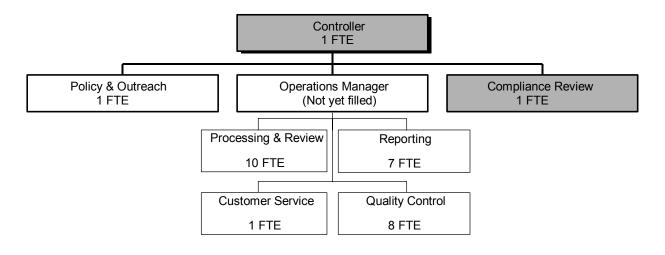
The implementation plan and timeline encompass all of the report recommendations. Many recommendations will require further staff analysis, new resources and Council action. Most notable is the recommendation to replace the IBIS system. This will have enormous staff and financial impacts that are not addressed in this report. If funding is not provided for IBIS replacement, the Accounting Division will focus its efforts on policy development, training, compliance and performance measurement. The following is a year by year plan.

#### Year One FY2003-04

Due to a vacancy in the City Accounting Manager position and currently budgeted funds for a Controller, resources are available for first year start up. See Chart 7 (on page 33) for the BFS financial impact over the 3.5-year period. Footnotes highlight where new resources would be needed. The existing Senior Accounting Supervisor II position would be responsible for developing citywide accounting policies with input from the accounting operations staff and the AAC. A new compliance auditor position would be created to begin bureau compliance reviews. To move toward the recommended structure and workflow, the City Accounting Manager position would be underfilled with a Compliance Auditor. This position would conduct bureau compliance reviews providing immediate attention to this priority task. Chart 4 portrays the recommended structure for Year One. Key elements of the first year start up are:

- Develop a communication plan
- Develop classification specifications and job descriptions for the Controller, ,
   Compliance Auditor and Operations Manager
- Develop and adopt needed City Code changes
- Recruit and hire Controller and Compliance Auditor
- Initiate policy development
- Initiate business process mapping of current operations
- Extend the external audit contract for FY 2003-04 to include bureau compliance reviews
- Conduct a classification review for the Accounting Division
- Expand training efforts (Requires new resources)
- Initiate a decision process for ERP system selection (Requires new resources)
- Develop customer feedback mechanisms
- Prepare an FY 2004-05 budget add package for Operations Manager (Requires new resources)

Chart 4
Office of Management & Finance
Proposed Organizational Chart
Accounting Division
Year One FY2003-04



Using authorized FTE and \$ this fiscal year

29 FTE Total

#### Year Two FY2004-05

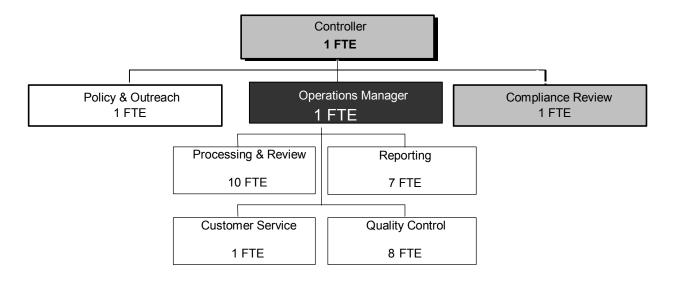
If additional resources are not provided, efforts will focus on completing citywide policies and conducting some internal compliance reviews. Recommendations to hire an Operations Manager and upgrade the level of Accounting Division staff as a citywide resource would not be possible. IBIS replacement would be delayed.

If the noted additional resources were provided, recommendations would continue to be implemented by adding an Operations Manager to lead and direct daily operations (see Chart 5). This would allow the Controller to maintain a longer term, forward thinking view while repositioning the Accounting Division to better support bureaus. Key elements of the second year implementation are:

- Complete initial citywide policies and procedures initiative
- Recruit and hire Operations Manager
- Continue external audit contract for bureau compliance reviews
- Develop and implement compliance plans based on review results
- Report compliance review findings to Council
- Continue to expand the training program
- Select a new ERP system
- Post citywide accounting policies and procedures on the Intranet

Chart 5

## Office of Management & Finance Proposed Organizational Chart Accounting Division Year Two FY2004-05



\$180,000 new funding includes 1 new FTE

30 FTE Total

#### Year Three FY2005-06 (See chart 6)

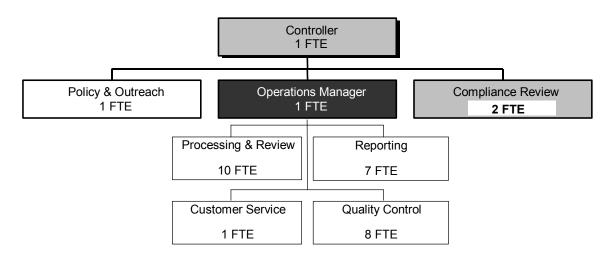
If resources are not increased over FY 2003-04 levels as recommended, several recommendations would not be implemented. These include expanded training, IBIS replacement, added compliance review staff and a cost of service study.

If funding is provided to implement all recommendations, the following steps would be taken in FY 2005-06:

- Refine and update policies, procedures, performance measures and benchmarks
- Continue compliance reviews
- Continue the expanded training program
- Consider adding an additional compliance review position
- Implement the selected new ERP system
- Conduct a cost of service study for the Accounting Division
- Establish interagency agreements with bureaus

#### Chart 6

## Office of Management & Finance Proposed Organizational Chart Accounting Division Year Three FY2005-06



\$220,000 new funding includes 1 new FTE

31 FTE Total

#### Year Four FY2006-07

- Continue prior years work
- Complete ERP system implementation

#### Chart 7

#### **ESTIMATED FINANCIAL IMPACT OF RECOMMENDATIONS\***

Year One FY 2003-04 New approved position Savings due to vacancies Available resources	\$110,000 <u>25,000</u> <b>\$135,000</b>	
Controller from 4/03 Underfill Accting/Operations Mgr 4/03 Contract assistance Policy development Division classification review Business process mapping Focused external audit work Total BFS	\$ 40,000 20,000 \$75,000 \$135,000	
Estimated Total Year One	\$135,000 \$135,000	
Estimated Total Teal One	<b>Φ135,000</b>	
Year Two FY 2004-05 Continue Controller Continue Compliance Auditor Hire Operations Manager** Business process mapping Accounting and bureau training Total BFS	\$130,000 \$ 80,000 0 30,000 <u>20,000</u> \$260,000	
Focused external audit work Total Auditor's Office	\$ <u>30,000</u> \$ 30,000	
Estimated Year Two Total	\$290,000	New requirement: \$180,000
Year Three FY 2005-06 Continue Controller Continue Compliance Auditor Add 2 <sup>nd</sup> Compliance Auditor Accounting and bureau training Accounting cost of service study Total BFS	\$130,000 80,000 80,000 20,000 <u>20,000</u> \$330,000	

<sup>\*</sup> Does not include CSL increases or IBIS system replacement costs

Does not include cost recovery from bureaus for compliance review/audit work

**Estimated Total Year Three** 

\$330,000

New requirement: \$220,000

<sup>\*\*</sup>Currently authorized and funded as City Accounting Manager, underfilled by Compliance Auditor

#### **APPENDICES**

### **Appendices**

KPMG Management Letter Comment	Α
FY 2003-04 Budget Note Volume 1, Page 60	В
Master City Survey Form	С
List of City of Portland Bureau Staff Interviewed	D
Organizational Charts	
City Organizational Chart	Е
Office of Management and Finance Organizational Chart	F
Project Implementation Timeline	G
List of Surveyed Cities and Contacts	Н
Bureau of Environmental Services Comments	1
Water Bureau Comments	J

#### Appendix A

Excerpt from Management Letter from KPMG dated March 27, 2003 (pg 5-6)

#### FINANCIAL MANAGEMENT AND REPORTING

Observation – Overall Financial Management – The role of controller is important to the day-to-day operations of any entity the size of the City of Portland. The controller and their related department personnel, are typically responsible for coordinating, understanding, reviewing and analyzing the details within the general ledger and financial reporting results in a diversified reporting environment, not unlike the bureaus. Although technical accounting personnel are familiar and concerned with the overall reported results, their roles, responsibilities and established authority within the structure of the City limit their direct accountability for understanding many of the accounting and financial reporting issues within the bureaus. Many of the issues raised in the financial reporting section of this letter are the result of a lack of communication between the bureaus and a consistent understanding and application of accounting standards across the City.

**Recommendation** – We recommend that the City give consideration to adding an individual, with the appropriate staff support to the accounting department to assume the role of controller. This group should have the authority and ability to delegate detail work to others within the bureaus, but also be able to coordinate between the bureaus and recognize the occasional need to validate information received. The controller should be proactive in identifying and addressing financial accounting and reporting concerns and internal control weaknesses and should provide reasonable assurances to City management that the accounting records and monthly financial reports are free from material misstatements.

Bureau Response – We agree with KPMG's recommendation that additional resources be devoted to strengthening accounting oversight and compliance over Citywide accounting and financial reporting activities. During development of the City's proposed FY2003-04 budget, a budget request to add resources to the Bureau of Financial Services' Accounting Division was included in the Mayor's Proposed Budget and has since been affirmed by the City Council in their approval of the Proposed Budget. These resources will be used to support the creation of an Accounting Manager/Controller position, which will include revising the current job duties for the current Accounting Manager position. An additional accounting position will be created within the Accounting Division to support increased compliance and control activities. The Bureau of Financial Services' Accounting Division will be undertaking strategic and organizational planning activities to align resources with this expanded mission. It is expected that the controller activities of the Accounting Division will include development of new City Code language that clearly establishes responsibility for accounting policy, practice, and financial reporting with the City's Accounting Manager/Controller. Bureau compliance with the revised Code language will be mandatory and will be subject to internal review and audit by the Bureau of Financial Services' Accounting Division.

#### Appendix B

#### Excerpt from City of Portland Oregon –FY2003-04 Adopted Budget (pg 580)

Office of Management and Finance

Bureau Summary

Legislative, Administrative and Support Services Service Area

#### FUNDING SOURCES

The Office of Management and Finance is funded by a combination of resources. The bureaus of Financial Services and Purchases primarily receive General Fund overhead and discretionary resources. OMF Business Operations and the bureaus of General Services, Communications, Technology Services, and Human Resources are funded primarily through interagency revenues.

New Revenues

Some new revenue sources are included in the FY 2003-04 Adopted Budget. OMF will assess a quarterly administrative fee to be paid by each of the five deferred compensation providers. The fee equates to 05% of the average annual balance of assets under management and is estimated at \$65,000 for FY 2003-04. While the fee will not fully offset the operating costs of the program, it will provide a stable funding source for approximately half of the program's costs.

Other new revenues are from interagency agreements and a new program. A \$75,000 interagency is established with the Pension Debt Redemption Fund in support of Treasury staff costs associated with PERS pension liability issues. In addition, the Adopted Budget provides for the continuation of a municipal marketing partnership program. Under this program, the City will enter into contracts with corporations and collect fees for providing commercial marketing opportunities through sponsorships and advertising.

#### BUDGET NOTES

Financial

The Office of Management and Finance (OMF) will hire a Comptroller by January 1, 2004. By the same date, OMF will develop and bring to Council new City Code language that clearly establishes responsibility for accounting policy, practice and financial reporting with the City's Accounting Manager/Comptroller.

General Fund

If General Fund discretionary revenue is found above forecasted growth, the first priority is to invest in capital (including PDOT capital).

#### Appendix C

### FINANCIAL REPORTING AND COMPLIANCE SURVEY

The City of Portland is conducting a survey of similar sized cities across the United States to collect comparative data regarding the organizational structure of city finance offices. The focus of this inquiry is the possible creation of a controller position. The goal of this change would be to establish more central control over financial reporting and compliance with policies and procedures.

The City's current structure and financial practices are set through its charter, code and adopted financial policies. At the City of Portland, the mayor administers the finance function. The elected Auditor is responsible for financial and performance audits.

We would be pleased to share the results of this survey in exchange for your input and assistance.

lame of Contact
-mail
Phone
Ooes the City have a <b>controller</b> position or function? Describe duties, responsibilities and authority
calary level  Ilow does the position fit in the finance org structure?
Explain the history of the position (When created, why, any issues, etc. low has this position been helpful to the City?
Vhat would you change, if anything?
there an elected Auditor?

Is there an elected **Auditor**? Describe duties, responsibilities and authority How does the position fit in the org structure?

Is there a **Chief Financial Officer** position or function? Describe duties, responsibilities and authority Salary level How does this position fit in the org structure?

Is there an **Accounting Manager** position or function? Describe duties, responsibilities and authority Salary level How does this position fit in the org structure?

Please send your finance org chart (or internet access)
Please send job descriptions for positions discussed (or internet access)

#### Appendix C

## FINANCIAL REPORTING AND COMPLIANCE SURVEY (Cont'd)

Through what mechanism is the org structure set?

Through what mechanism are financial and accounting policies set?

Through what mechanism are financial and accounting rules and procedures set? Please send copies of current citywide and department specific financial policies and procedures (or internet access)

Would you describe the City's financial management as centralized or decentralized? How many staff work in the central accounting operation?

How many are assigned to compliance?

How many staff work in department or bureau accounting functions?

Describe financial reporting and compliance issues of the City, if any.

What are the incentives and penalties for not complying with policies, procedures, and internal controls?

Who enforces the policies and controls?

Is there an internal audit function? If so, how is it structured?

Does that function address compliance issues?

Is a reorganization planned in the near future?

How do you address the need for some degree of standardization while serving the business needs of diverse operations?

To what extent does the City adhere to "best practices"?

Which best practices have you found to be most effective in your organization?

Does the City have a centralized financial management and reporting system?

Are there ancillary systems? Are they integrated or stand alone?

Does the City have a goal or plan to integrate systems?

What special business needs are met through the ancillary systems?

What problems, if any, are caused by the ancillary systems?

#### Appendix D

#### **List of City of Portland Bureau Staff Interviewed**

**Bureau of Environmental Services** 

Sediegh Khodaverdi Dave Gooley

**Bureau of Water Works** 

Jerri Widner

Office of Finance and Management OMF Business Operations

Tom Feely Aaron Beck

**Bureau of Human Resources** 

Anna Kanwit

**Bureau Of Technology Services** 

Matthew Lampe

**Bureau of Purchases** 

Sue Klobertanz

**Bureau of Financial Services** 

Debt Management Division

Eric Johansen

**Treasury Division** 

David Thurman

Financial Planning Division

Mark Murray

**Accounting Division** 

Marty Scott

Dan Green

Norma Romero

Samina Simonis

Office of Neighborhood Involvement

Paul Stewart

**Bureau of Development Services** 

Rob Bayley Denise Kleim

Bureau of Fire, Rescue and

**Emergency Services** 

Julie Prahl Jay Guo

Portland Office of Transportation

Mike Blackledge

**Portland Parks and Recreation** 

Gordon Wilson Dennis Choquette

**Bureau of Licenses** 

Rachel Summer Larry Nelson Chrissy Bynum

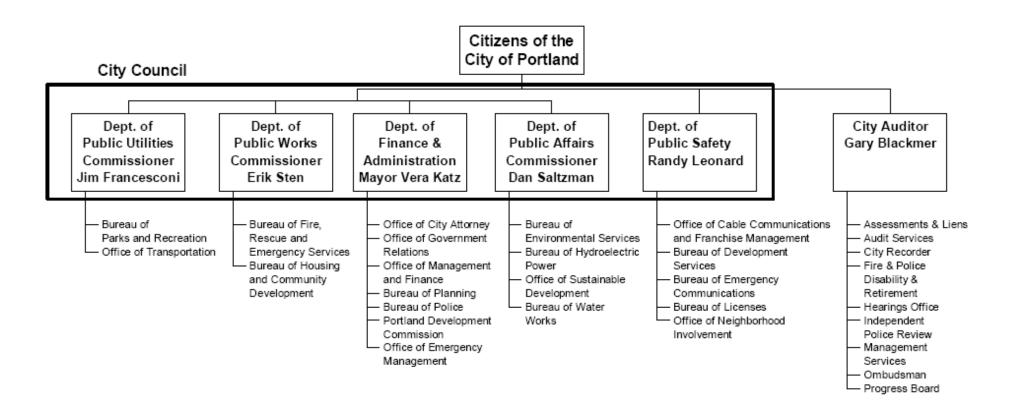
Office of the City Auditor

Gary Blackmer Dick Tracy

#### Appendix E

#### **ORGANIZATIONAL CHART**

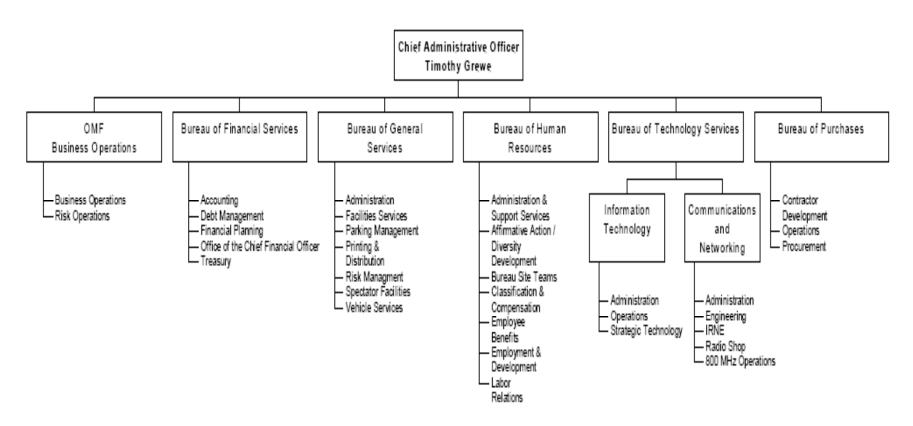
#### **CITY OF PORTLAND**



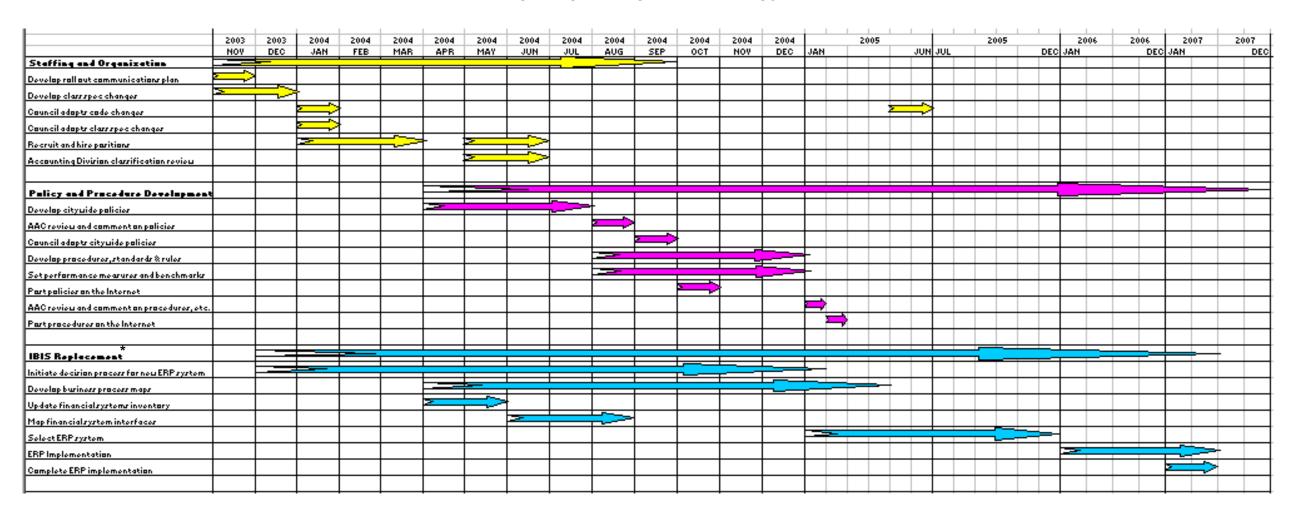
#### Appendix F

#### **ORGANIZATIONAL CHART**

### Office of Management and Finance

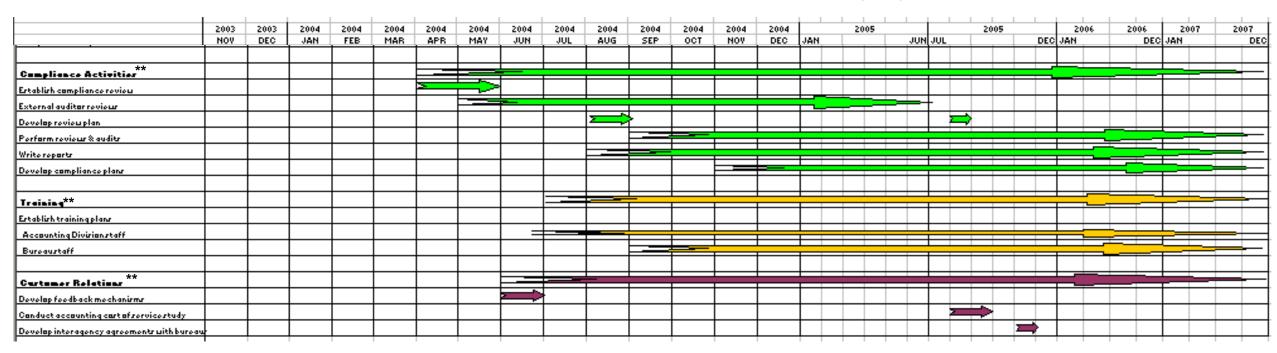


## Appendix G CITY OF PORTLAND FINANCIAL REPORTING AND COMPLIANCE PROJECT TIMELINE



<sup>\*</sup>Effort requires new resources, costs are not included in implementation cost estimates

## Appendix G (cont'd) FINANCIAL REPORTING AND COMPLIANCE PROJECT TIMELINE (cont'd)



<sup>\*\*</sup>Initial level of effort is funded, new resources are needed to add staff & implement full recommendations

# Appendix H City of Portland City Survey List and Contacts

#### Charlotte

Teresa Smith, General Accounting and Reporting Manager <a href="mailto:Tsmith@ci.charlotte.nc.us">Tsmith@ci.charlotte.nc.us</a> 704-336-7906

#### Cincinnati

William E. Moller, Finance Director Bill.moller@cincinnati-oh.gov 513-352-6275

#### **Denver**

Bettye Enders, Director of Administration Bettye.enders@ci.denver.co.us 720-865-7247

#### **Kansas City**

Kevin Riper, Finance Director Kevin riper@kcmo.org 816-513-1173

#### **Phoenix**

Pat Rivera, Management Assistant II Pat.rivera@phoenix.gov 602-534-3132

#### San Antonio

Lena Ellis, Assistant Finance Director Lellis@sanantonio.gov 210-207-5023

#### San Francisco

Pamela Levin
Pamela.levin@sfgov.org
415-554-7554

#### Seattle

Carol Metcalf, Accounting Manager Carol.metcalf@seattle.gov 206-684-8348

## Appendix I City of Portland Bureau of Environmental Services Comments

January 12, 2004

To: Marty Scott, Interim Accounting Division Manager
Jennifer Sims, Budget Division Manager
Bureau of Financial Services

From: Sediegh Khodaverdi, Accounting Services Manager
Bureau of Environmental Services

Thank you for the opportunity to review the Financial Reporting and Compliance Project Report. Your report is comprehensive and indeed covers major issues regarding the City's Financial Reporting and Accounting Policies. We believe that creating the Controller position will benefit the City in many ways including a much needed consistency of policies and financial reporting among City bureaus. We also confirm a need for Compliance Review. From your report I like to highlight the issues most important to BES.

#### Roles & Responsibilities

- We encourage the role of clear authority of a controller to establish, maintain and enforce citywide policies to ensure the accountability of City's financial integrity. We hope that the Controller takes advantage of wealth of knowledge among the City bureaus and award the bureaus with the flexibility that they need to get the City's work done.
- We hope that the role of AAC in addition to review and comment, will continue to identify issues and priority of projects.
- Establishing the Controller as the sole authority for issuing reports to external
  organizations may cause timing issues and other problems not known to us at
  this time. A collaborate effort between the impacted bureau and the
  Controller is required to eliminate such incidences.
- The Accounting Division staff has always been "subject matter experts" for us and we have taken advantage of their knowledge and expertise in numerous ways

and times. A question comes to the mind: If the Accounting Division staff are not "regulators", then who is?

#### **Policies**

 We concur a strong need for a citywide accounting policies and procedures which is established based on best practices and measured by benchmarks.

#### Systems

We strongly concur with your assessment of current financial system (IBIS)
and encourage initiating the replacement process. The new system should
ensure the citywide integrity of financial information in a robust and efficient
ways to take care of many citywide processes that the bureaus do alike, and be
flexible to allow for other processes we do differently.

#### Compliance

 A financial compliance function is essential to ensure that we are on the right track. Periodic internal audits could also result in finding efficiency already practice by other bureaus. A collaboration of Accounting Division staff and bureaus' Accounting staff could provide such results.

#### Communications and Training

 We believe and as you have indicated in your report, developing a citywide training program is a key element for success in all areas above.

#### General Comments on Implementation and Organizational Structure

- a) As you work toward implementing the recommendation in your report, it is essential to recognize the needs of bureaus and help them achieve their efficiencies. Bureaus posses a great deal of knowledge and expertise that should be tapped on in reaching the mutual goals expressed in your report.
- b) The issue of reviewing classifications of accounting staff can be a tricky one. Often we focus on the requirements of desired job classification aside from the qualification of existing employees who hold the classification. This process needs to be planned out carefully with a timetable until reach the ultimate organization level.

## Appendix J City of Portland

## Water Bureau Comments on Financial Reporting and Compliance Project Report (12/16/03 draft)

Several accounting, audit, and finance staff of the Water Bureau have reviewed this draft report, and we have a number of comments and questions. In general, we agree with and applaud many of the objectives that the Bureau of Financial Services (BFS) is seeking to achieve. We have attempted below to indicate areas of agreement, areas of disagreement, and questions. The points we raise are not listed in any order of importance, but generally (not always) follow the sequence that they appear in the report.

#### **Executive Summary**

- ◆ P. 3. Introduction and Background, 2<sup>nd</sup> paragraph. We agree that there has been poor communication between bureaus, including between BFS and other bureaus. Rather that assign specific blame, we merely note that communications issues have at times been caused by both BFS and other bureaus with accounting staff for a wide variety of reasons. This communication issue certainly needs improvement.
- ◆ P. 3, Findings and Recommendations. We are pleased to see that a decentralized structure with a central policy framework is recognized as the most effective service delivery method for the City. However, this idea does not seem to be carried forward to the second paragraph in which it concludes that a "central audit functions ensures a high level of compliance." Although a central audit function can be useful in identifying problem areas and internal control weaknesses, the implication of the paragraph seems to be that City employees are either unwilling or unable to follow correct methods and procedures, and therefor an audit function will make them comply − or else. We are concerned about this implication of the discussion.
- ◆ P. 4, Roles and Responsibilities, first bullet. The City Code may already provide the Accounting Manager the authority to establish accounting policies and procedures. Also, what is suggested by the word "enforce" in this bullet? How would enforcement occur, and what are the sanctions that are being implied with this?
- ◆ P. 4, Roles and Responsibilities, 3<sup>rd</sup> bullet. How can the Controller have the sole authority for financial reports for use external to the City? The bureaus issue dozens (hundreds?) of financial reports of various types to external readers. It does not seem possible or reasonable to have the Controller responsible for all of them, unless "financial reports" is defined very narrowly.
- ♦ P. 4, Roles and Responsibilities. The thrust of this set of bullets is that the Controller/Central Accounting will set all standards and procedures for accounting in the bureaus. Although we agree in terms of principle, we are very concerned about how this would work in practice. The needs of the Bureaus are quite varied and diverse. The Controller and Central Accounting are unlikely to know and understand the information and reporting needs of all the bureaus. This has certainly been the case in the past, and we have little reason to anticipate a significant change in the future. Therefore, we are quite concerned that the bureau's legitimate and important business needs might not be understood, might not be acknowledged, and might be hampered by centrally generated standards that establish standardization just for the sake of standardization, without due consideration to these

- business needs. How will this concern be addressed? This is one of the Water Bureau's most important concerns with the proposals in the report.
- ◆ P. 4, Roles and Responsibilities, 8<sup>th</sup> bullet. If IAs will be used for cost recovery, we would have an expectation that the General Fund Overhead costs for central accounting services would decline correspondingly. Will this be the case? If not, why not? We have some concerns about the set of proposals resulting in added costs to the bureaus, without much overall change in services.
- ◆ P. 4, Roles and Responsibilities, 5<sup>th</sup> bullet. How will Accounting Division staff become "subject matter experts"? It is unlikely to expect that existing Accounting Division staff will become experts in the business processes of the bureaus and the corresponding accounting requirements. In fact, we would see the bureau staff as the subject matter experts for the business processes in each bureau. It is more realistic, in our opinion, that the Accounting Division staff would be experts in certain citywide functions (e.g., IRS requirements, GASB requirements, etc.), but this expertise would not apply to business processes because these staff do not deal with the bureaus' processes except very infrequently. An additional question is how will the existing staff become experts? Will this be through some additional training (as mentioned elsewhere in the report)? If so, how can there be an assurance that staff will indeed be "experts" when training is seldom a means to an "expert" status. Also, it may be both inappropriate and appear condescending to suggest that central accounting staff members are experts who are always more capable than bureau accounting staff. We recommend revisions throughout the entire report to eliminate or revise text that implies this.
- ◆ P. 4, Roles and Responsibilities, 7<sup>th</sup> bullet. Does the mention of central control of account codes mean that the accounting structure among bureaus will not be allowed to vary accounting to their individual information and reporting needs? Why not allow the bureaus to control the project codes to manage their various projects? It is unclear why this should be centralized. Also, such centralization could create a bottleneck that results in delayed reporting of costs to project managers, which is a reduction of efficiency, not an improvement.
- ♦ P. 4, Policies, 1st bullet. We agree that there should be citywide accounting policies and procedures, but again would caution against removing the flexibility of the bureaus to meet their particular information and reporting needs (which will <u>not</u> be uniform across all bureaus).
- P. 4, systems, 1st bullet. We disagree with the recommendation for approval of acquisition and/or changes to systems. The Controller, Purchases, and BTS may indeed be relevant participants in important system decisions, but there is no mention of the respective bureaus being involved in the decision for such changes within their own bureau. Presumably, the budget for such system changes would be that of the bureau, so the bureau should have a role in the decision making. The report sounds as though the bureau has no role other than paying for the change. If this is not a correct interpretation of the recommendation, then the recommendation should be rewritten to clarify the role of the bureau. We recommend that the bullet be revised to indicate some front-end involvement of the Controller, Purchases, and BTS, but indicate that the bureau has an important decision-making responsibility as well.
- P. 4, Systems, 3rd bullet. The mapping of all business transactions would be a huge task. How will such a work product be updated? How will it be used? We see this as being a much larger task than the Accounting Division might really want to undertake, and even if performed, might easily end up gathering dust on the shelf for lack of time and energy to

- follow-up and update regularly. And the benefits or reasons for the mapping are not stated in the report.
- ♦ P. 4, Systems, 4th bullet. The reference to duplicative systems implies that such systems are inefficient and unnecessary. This implication is not always correct. Some systems being used by bureaus, including Water, actually save time and cost and interface with citywide systems via automated interfaces. Often these systems have a clear reason and justification for their existence. So we would suggest rewording that indicates that inefficient or unnecessary duplicative systems be standardized and consolidated, rather than a blanket recommendation for consolidation.
- P. 4, Compliance, 1st bullet. Why establish a financial compliance function separate from the Auditor's office? It would seem that the Auditor's Office is qualified to perform testing for compliance.
- P. 4, Compliance, 2nd bullet. It is not entirely clear what additional scope of work would be added to the current external audit contract. The auditors currently review and comment on "financial data and systems."
- ◆ P. 4, Compliance, 2<sup>nd</sup> bullet, and p. 32, Chart 4. We believe that the cost of the additional external audit work is significantly understated. Based on recent experience with external auditors and the cost of additional services (at their billing rates), the Water Bureau is of the opinion that the financial requirements associated with this recommendation will be substantially more than is portrayed in Chart 4. Alternatively, the budget could be kept at this level, but the amount of additional work that is provided will not be consistent with the description of such work in the text of this report.
- ◆ P. 4, Compliance, 3rd bullet. The report recommends that the Accounting Division perform internal auditing and testing for compliance. This causes us some concern on two levels. First, there is the issue of independence of the audit work. This concern has to do with the Accounting Division performing work with the bureaus as subject matter expert and in other roles. How can the Division do independent audit work if it is a party to both the procedures and transactions being recorded and reported? Second, and more importantly, this audit function could seriously discourage the bureaus from bringing technical issues and problems to the Accounting Division's attention. In short, the concern is that by brining an issue forward, it could trigger an audit. The incentive would be to discourage open and free communication by the bureaus with the Accounting Division, which is certainly an undesirable outcome.
- ◆ P. 5, Organizational Structure, 2<sup>nd</sup> paragraph. The proposed model is generally good, in our opinion, but the tone suggests that the bureaus are or will be reluctant to embrace the new concepts. It also implies that the bureaus have not already developed or follow the as-yet-to-be-defined "best practices." In general, we believe that every bureau wants to adopt "best practices" approaches to their business. The danger is in believing that one "best practice" fits all bureaus.
- P. 5, Organizational Structure, 3rd paragraph. In our opinion. Policy and Outreach will be as important as anything. Unless considerable effort is made, the bureaus may look upon this effort as OMF's attempt to force its will on the rest of the City.
- ♦ P. 5, Organizational Structure, 4th paragraph. We believe that the cost (p. 32) for the tasks identified in the paragraph are substantially insufficient and understated. We suggest that more realistic cost estimates be made so that the full and complete cost of this effort is known in advance. Further, we suggest that OMF develop a framework for business process mapping, and then let the bureaus actually do the mapping of their processes. Who would be

more familiar with these processes than the bureaus? This will have the benefits of more accuracy, more bureau buy-in as to the process, and an opportunity for the bureaus to identify their own inefficiencies. Then OMF could hire a consultant to review these business process maps, which would be the best use of such consultant expenditures.

#### Report

- ◆ P. 7, last paragraph. The report mentions the result of synergy between the needs of the bureaus and "the strategic direction and control exercised by the central provider." We agree with this as a desirable outcome. However, we believe that this will be very difficult to achieve, and therefore that the expected benefits should not be overstated or overestimated. The existing cultures within both the bureaus and central accounting make this a challenge to achieve. Also, the limited understanding (at least currently) by central accounting of many of the needs of the bureaus may provide more obstacles to achieving these synergies that might be first thought. So we recommend that there be a conservative perspective regarding the synergies that one might realistically expect.
- P. 8, Project Goals and Scope. The 4<sup>th</sup> goal does not mention retention of staff as a goal, as indicated on p. 14, 3<sup>rd</sup> bullet. This goal might be added to p. 8.
- ♦ P. 13, 2<sup>nd</sup> bullet. Changing the role of the ACC to review and comment goes contrary to what the bureaus would like to see from their participation (p. 12). The tendency of the past has been to have ACC recommendation languish within OMF, and reducing the ACC role to review and comment only enhances this lack of participatory role and ignores the talents and abilities of the ACC members.
- P. 13-14, last bullet on p. 13. The impacts are well stated, but some mention that the City has not experienced these impacts needs to be added. Otherwise, the implication is that the City has indeed already had these impacts.
- ◆ P. 14, 2<sup>nd</sup> paragraph. The text states that there is currently no official source of reports. This implies that the City's financial reports are unsupported and perhaps inaccurate, which is not the case. Suggested wording would simply be that the City does not have a central review source to ensure the consistency and accuracy of all externally issued financial reports of the City bureaus and elected officials. Also, the "official reports" should be defined, because many financial reports that are unrelated to accounting might be interpreted as being included here, which we understand not to be the case. If this understanding is inaccurate (i.e., all financial information of any type is included), then we would have a more serious objection to the proposal and would need have to have further opportunity to discuss our concerns.
- ◆ P. 14, 3<sup>rd</sup> paragraph. The statement that BFS Debt Management should coordinate presentation of all financial reports again brings forth the issue of what is included in this definition of financial reports. We believe that there are many financial reports that are not relevant for Debt Management's review or coordination, so such review and coordination would itself be a source of inefficiency and a waste of valuable staff time.
- ♦ P. 14, 4<sup>th</sup> paragraph. The report indicates that the central accounting positions would be upgraded/reclassified, if the recommendations are accepted. How would this occur? How will staff in the operating bureaus who have similar technical responsibilities be similarly upgraded, if at all? Has the possibility of perceived internal classification/pay inequities been considered (i.e., between the bureau accountants and the Accounting Division accountants), regardless of whether such perceptions are accurate?

- P. 15, 2<sup>nd</sup> bullet, last sentence of text. Who would be the recipients of this staff training? The Controller? It would seem that the Controller would not be in need of such project management training. Please clarify.
- ♦ P. 16, 1<sup>st</sup> bullet. This is OK as long as the ancillary system feeds data into IBIS. If the system is used only for ad hoc or very unique financial information needs of a manager, then such authority seems to be unnecessary and perhaps inefficient. Also, the charges for this service should be subject to true negotiation over scope, hourly rates, etc., and NOT be a blank check for charging bureaus without limit and without specific objectives.
- P. 16, Policies. The text states that the City lacks a comprehensive set of accounting and financial reporting policies. We do not believe this to be true. Note 1 of the CAFR would seem to provide these policies. Perhaps we have misinterpreted the text of the report. If so, please clarify.
- ◆ P. 17, 2<sup>nd</sup> bullet. A couple of comments. The title and discussion imply that the bureaus are not using "best practices." This seems to be a little unfair to the bureaus. Secondly, can anyone (now or ever) come up with a list of "best practices" applicable to all bureaus? Because of the diverse businesses in the bureaus, a "best practice" in one bureau may indeed NOT be a best practice in another bureau. Therefore, we believe that what should be discussed are "standards." Finally, we are of the opinion that best practice implementation should be possible independent of an ERP system. The text states/suggests otherwise, and we disagree.
- ◆ P. 19, last bullet. The report indicates that "shadow" systems require "duplicate data entry and waste valuable staff time..." We disagree with this broad generalization. Many of the systems in use in the bureaus do not require any duplicate data entry whatsoever. As noted above, interfaces have already been established to prevent much or all of this duplicate data entry. To suggest that the norm is duplicate data entry is not consistent with our experience and highly inaccurate. Any assertion regarding wasted staff time is either reliant on this incorrect assumption about data entry or is referencing some other source of wasted time that is not specified or documented in the report. Consequently, the Water Bureau's opinion is that this portion of the report needs to be corrected and rewritten in such a way as to more accurately reflect the facts. If Water's experience with such systems is atypical of what occurs elsewhere in the City, then we are not aware of substantial wasted time. We acknowledge that there may be some additional software (and in a few instances hardware) requirements, but in our opinion, the additional costs are to achieve a particular purpose or outcome that justifies that cost. It is not merely a matter of inefficiency or waste, as suggested in the report.
- ◆ P. 22, 2<sup>nd</sup> bullet. The recommendation for in-depth audits of the bureaus' financial data is a good recommendation, but should be performed <u>after</u> the policies and procedures are developed and <u>after</u> the bureaus have had a reasonable period of time to respond, such as one year. Secondly, as noted elsewhere in these comments, the audits will require that the auditors have a good understanding of the business information and reporting needs of the bureaus being audited. External auditors will be very expensive to bring up to speed on such business processes and needs. Therefore, we note that careful consideration should be given to these audits, the costs, the auditing agency or entity, and other implementation issues that might be significant.
- P. 22-23, last bullet on p. 22. The recommendation to periodically test financial transactions is a good one in theory. However, we do not believe that the proposed Controller's Office will have the necessary IT expertise to perform the necessary tests and audits of these

- ancillary systems. We instead suggest that the recommendation would be much more practical if the audits were directed to input controls (rather than program controls) and to reconciliations of differences between these systems and IBIS.
- ◆ P. 26, 3<sup>rd</sup> paragraph, 2<sup>nd</sup> sentence. The text is problematic as it is now written. It directs that the "bureaus will be held accountable for the delivery of service by complying with all accounting and reporting policies and by implementing business processes that will enable best practices to be achieved." The problem we have with this sentence is that business processes are forced to change to comply with accounting best practices. We believe that business processes should be optimized, and then the accounting system should use the best practices possible consistent with those processes. In short, business processes should take priority over the accounting needs where the two are in conflict. Accounting should not trump business needs.
- P. 26, last paragraph. The text states that the reporting section would "reconcile the general ledger". We are unclear what the general ledger would be reconciled to. Also this sentence states that the reporting section would maintain asset records. Would this include all fixed assets built, renewed, and/or maintained by Water, BES and PDOT?
- ♦ P. 27, 2<sup>nd</sup> bullet. The report states that the Controller will ensure the integrity of financial data and reports. What financial reports are being referenced? "Financial reports" in our use of the term would include financial projections, financial data summaries, and a wide variety of other material. We suspect that the implicit definition being used here is much narrower, but we'd appreciate some clarification on this.
- ♦ P. 27, 4<sup>th</sup> bullet. The text refers to "current professional standards." Whose standards are being referenced? In the same bullet we suggest that the tests and audits should cover internal control weaknesses, irregularities, and fraud, none of which are listed in the text. Also, some reporting of these findings is necessary, at intervals that might vary according to the issue.
- ◆ P. 28, 2<sup>nd</sup> bullet. The allocation to City bureaus is mentioned, but it is unclear how such allocations will occur. The basis of the allocations will be important to the bureaus.
- ◆ P. 28, 4<sup>th</sup> bullet. Does this bullet truly mean that the Controller will have input into the duties and compensation for ALL financial management staff? If so, this would imply that the Controller would have input, for example, in decisions related to the Finance Directors of all bureaus, to the senior financial staff of all bureaus (financial planners, rate-setting managers, financial planning managers, budget managers, debt managers, etc.). We think that the report intends to only apply to staff primarily involved in accounting-related positions, but as the text now stands, it would apply to many, many more individuals than that. If we are incorrect in our interpretation of the intent, then we would have serious objections to the Controller having input on duties and compensation for staff working in financial management areas that are far outside the expertise of a Controller.
- ♦ Implementation Section, various pages. We are concerned about the plan to add two new positions in central accounting in addition to the Controller position. This is a difficult time for bureaus to bear the additional cost of overhead staff (regardless of whether the vehicle is the General Fund overhead cost allocation or an interagency agreement). No time is a good time for adding to the administrative burden of operating bureaus, but this is certainly a particularly bad time for this to occur.
- ♦ Implementation Section, various pages. We also believe that with greater operational efficiencies and improvements in central accounting, the proposed additional staffing will not be necessary. To the extent that central accounting is no longer focused on the "processor and

regulator role" and instead become "subject matter experts and consultants", there could be efficiencies in work that might free up current staffing to provide the additional services, such as compliance reviews. Furthermore, to the extent that the bureaus become more standardized in their accounting practices, per the role of the Controller, there would be less work for central accounting to deal with reconciling differences, dealing with issues that arise from such differences, and related matters. Consequently, it would seem that some staff time should become available for other functions, thereby eliminating the need for additional staffing.

- ♦ Implementation Section, various pages. Similarly, we think that this might be an inopportune time for BFS to propose increasing its training budget. The training budgets of most (all?) bureaus have been battered in the last 5 years or more, and the proposal to materially increase BFS's budget would not be well received by the rest of the bureaus and might lead to difficulty in accepting the proposed interagency agreements.
- P. 32, Chart 4. We think the estimated cost of the cost of service study (\$20,000) might be too low. We would anticipate the actual cost to be higher than what is shown in the report.

Again, we agree with much of the intent and direction that are being recommended. One of our major areas of concern is that the Accounting Division lacks knowledge of the business processes of the bureaus, and the report therefore fails to recognize the importance and need for flexibility and variation across bureaus. Standardization is a reasonable objective, but it can't be forced on situations where it may not be reasonable, efficient, or effective. The report does not give any recognition to such situations, which we believe occur in the City.

As an additional thought, we think the report gives little credit to the City Auditor and the Audit Services Division. The Auditor group's current and future efforts regarding the Managing for Results report, adopted by Council, might be incorporated into the report and subsequent implementation. Implementing the Managing for Results concepts would lead naturally to application of "best practices" (if that term must be used) or efficiencies in the operations of the bureaus. We recommend that the report include some discussion of how this initiative would be folded into the Financial Reporting and Compliance proposals.