

Citywide Administrative Services Review
Financial Management Framework Plan



Prepared By

Bureau of Financial Management • Office of Management and Finance

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NOTES: This document is approximately 10 pages long. One additional attachment is not included here, but is available through the Office of Management & Finance.

1. Vision

Background Overview

The Financial Management functional area deals with activities associated with accounting, debt management, and treasury services. The total reported budget for these services totals \$9,191,190 and 134.8 FTEs. With the exception of debt management and treasury services, Financial Management activities provided throughout the City are highly decentralized. For example, of the total 134.8 FTE count attributable to Financial Management, only about 30 percent are within the Bureau of Financial Management of OMF, the central service provider.

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 the Financial Management area has been slow to flat. 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 Financial Management service providers.

Long Range Vision

The long-range vision for the Financial Management functional area is of 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. It retains the current decentralized approach to accounting transaction processing to meet bureau specific needs. Increased efficiencies and cost reductions would be achieved by identifying best practices and setting benchmarks that bureaus would be responsible for meeting. 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.

Realizing this vision will be challenging. In the short-run, the current workload of both the Accounting Division and the bureaus will slow policy development and best practices work efforts needed to begin system improvements. The ability of the Accounting Division to function in a leadership role in the absence of additional resources is limited at best. Finally, the authority to hold bureaus accountable for meeting best practice benchmarks, for adhering to policies and for working towards systems consolidation and standardization does not currently exist. This approach very much charts a new course for the way in which the City's accounting services are managed and directed. It will require a new way of thinking for all involved parties—the City Council, the Accounting Division, and the bureaus. With a commitment of time, effort and resources the vision can be achieved. The realization of such a vision will result in 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 service model.

Successfully realizing the described future vision will take much hard work. More importantly, however, it will take a continuing commitment by the City Council to ensure that all bureaus follow policies and practices established by the Accounting Division and the Bureau of Financial Management and that bureau managers are held accountable for successful implementation.

2. Policies

The Bureau of Financial Management has detailed Council-approved policies in place that guide City investment and debt management activities. These policies also provide clear direction as to how these services will be provided to City bureaus and who is in charge of day-to-day decision and management of these functional areas.

In contrast, the City's approved policies in the area of accounting and financial reporting are much more externally focused, dealing primarily with financial reporting and auditing standards. The City lacks a comprehensive set of accounting policies that govern City accounting practices and delineate accounting responsibilities between the bureaus and Accounting Division of the Bureau of Financial Management. Development of a comprehensive set of accounting policies and a reporting and responsibility structure for their implementation is an important need of this functional area.

3. Organizational Structure

Existing Structure

The Financial Management functional area uses a combination of centralized and decentralized organizational models. Debt and Treasury Management services, although coordinated with individual bureaus, are provided centrally. 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.

Accounting related activities have followed a pattern of increasing decentralization since the passage of Measure 5 in 1990, with increasing amounts of accounting processing and transaction activity occurring at the individual bureau level. 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 and checks and deposits are processed. For smaller bureaus, the Accounting Division within the Bureau of Financial Management 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 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 appears to serve individual bureau needs, however it limits the ability to achieve higher levels of productivity and efficiency citywide.

Recommended Structure

The centralized structure used to deliver Treasury and Debt Management services will be maintained and seems particularly well suited to these functional areas given the complexity of the operations. A centralized approach enables economies of scale and efficiencies to be realized and best utilizes the special expertise needed to bring a unified approach to the management of the City’s cash resources and debt liabilities.

As previously discussed, the City’s accounting operations have become increasingly decentralized with the primary reporting and systems responsibilities undertaken 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.

The organizational approach that is recommended for the City's Financial Management area includes continuing use of the central service model currently used in delivering Debt and Treasury services. It is further recommended that accounting 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 (in this case the Accounting Division of the Bureau of Financial Management) in the following ways:

1. Develop a more systematic and standardized approach to the development and implementation of financial systems used to undertake city-wide accounting activities.
2. Establish "best practices" based on a review of internal and external accounting practices.
3. Develop city-wide accounting policies and procedures.
4. Utilize accounting staff to assist across bureau lines in providing accounting services.
5. Hold bureaus accountable for providing accounting services consistent with adopted policies and identified "best practices" and related performance standards.

4. Roles and Responsibilities

As previously discussed, the current division of duties between the central or corporate operation (Accounting Division within the Bureau of Financial Management) and the bureaus can be summarized as follows:

Accounting Division:

External Reporting (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

--Project management

Development and maintenance of off-line financial/accounting systems

External financial reporting

Under the recommended organizational structure the same general distribution of duties would be maintained. However, stronger central administration provided by the Accounting Division, working in consultation with the Accounting Advisory Committee, would be developed in the following areas:

- Accounting policies, including GASB requirements and individual policies dealing with accounting issue areas
- Establishment of 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
- Internal review and audit to determine bureau compliance with policy and reporting requirements

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 organization 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.

This service delivery model gives 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 best practices to be achieved. Key to the success of this service delivery model is the ability to ensure that bureaus implement policies and adhere to best practice standards. This will require ongoing monitoring by the Accounting Division. If it is determined that a bureau has failed to meet adopted policies or practices, or to attain performance standards, the Accounting Division 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 for the Accounting Division to identify other service delivery options, including centralized service model. Because compliance is key to the long-term success of this Framework Plan, the Council will need to provide the necessary controlling authority to enable such corrective actions to be successfully implemented by the Accounting Division.

5. Service Provision Options

Implementation of the Financial Management Framework Plan will require a substantial amount of review and analysis of the City's key accounting processes. The ASR committee has developed a workplan template (see Attachment A) that will be used for each area of analysis. Initially the areas of analysis include accounts receivable, cross utilization of accounting staff, and use of automated financial systems including IBIS. These workplans will be used to:

1. Establish best practices based on internal review and a comparison with external entities, both public and private.
2. Develop performance benchmarks to assess efficiency and effectiveness.
3. Identify barriers to achieving best practices or service delivery efficiencies.

This work effort will enable service provision options to be considered based on a foundation of data and comparable information. Completion of the workplans for key process areas (accounts receivable, cross utilization of accounting staff, and increased use of IBIS) will consider whether or not cost-savings could be realized by bidding out the activity, by consolidating service delivery internally, or by reorganizing the activity or process to better conform to identified best practices.

6. Service and Performance Standards

As previously discussed, an important part of the Framework Plan's implementation 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. Performance measures will help ensure improved performance and the implementation of improved service delivery options.

7. Technology

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 ten 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. In order to improve services and reduce cost, this approach to technology tools and investment will need to change. Improvements in the way technology is used in the accounting area will need to include:

- Standardize/consolidate the number of duplicative systems that have been developed to address bureau service needs. In the short-run, this means looking internally at the "best" systems and reducing the number used and supported. This will require bureaus to adjust their business needs to achieve greater efficiency and benefits for all. Allowing the needs of each bureau to be the least common denominator that must be solved for in the technology equation is inconsistent with Council's directive of achieving greater efficiencies in the area of administrative services.

- Enhance training on the technology tools used by the City today. 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. 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.
- Replace or improve IBIS to provide an enhanced financial information system, and require that bureaus use the new or improved system to support their business operations. For this investment to yield the most value 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 the Bureau of Information Technology and the Accounting Division
 - ❑ off-line systems are eliminated or further standardized or consolidated

8. Financial Issues

Currently the Financial Management functional area receives external funding for a portion of the services associated with Treasury and Debt Management. The ASR process has looked at ways to increase external funding for these services and it is expected that additional revenues can be generated from external sources. Options being considered include increased revenues for services provided to PDC and assessing issuance fees for new financing programs undertaken by the City in support of regional facilities or housing investment. In addition, the Treasury Division is proceeding with a proposal to offer passport-processing services at their City Hall counter operation. This new service should more than cover support costs with extra revenues earned helping to offset overall Treasury Division costs.

At this time the City does not provide accounting support services to outside entities. In the near term the ability to offer services to external entities, either public or private, is likely to be very limited due to current staff and technology limitations.

ATTACHMENT A

Work Plan Outline

- I. Project Title
- II. Description of Project (*Describe what the project is about*)
- III. Project Goals / Objectives (*Outcome discussion*)
- IV. Relationship of this Project to ASR Financial Management Framework Plan
- V. Work Plan
 - Introduction Paragraph (*An overview or executive summary of the Steps*)
 - Project Development Details:
 - A. Step 1 (*Describe: What, How, Who & Expected Outcome for each Step*)
 - B. Step 2
 - C. Step 3
 - (etc.)
- VI. Discussion of Potential Barriers & Means to Address Them
- VII. Discussion of Any Special Approvals Required (*Council, City Attorney, etc.*)
- VIII. Performance Measures & Standards
 - Identify internal and external best practices in this area
 - Identify how to evaluate progress toward the goals and objectives of the project
 - Describe how performance measures will be established
 - Estimate budgetary savings and cost avoidance, or define process to measure them during project administration
- IX. Work Plan Schedule (*For the above steps*)

Overall Project Evaluation. Establish a timeframe to require evaluation of the project's effectiveness in order to determine if it should be continued or terminated.