Finance Department tune-up: Benefits of a comprehensive assessment

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AGENDA

• What is an assessment
• How is assessment performed
• How and why systems deteriorate
• Unique benefits of assessment
• Examples from the field
• Discussion & Questions
What does an assessment cover?

- Finance policies
- Operating procedures
- Internal controls
- Interactions with other departments
- Finance software system
- Compliance
- Organizational design & classifications

Assessment Steps

Audit-like

- Determine scope & major areas of focus
- Review of key documents
- Interview staff
- Analyze results of document review & interviews
- Draft report & review with management
- Provide results in form suitable to meet needs
How did we get here?

- Legacy systems designed and operated by legacy staff (who leave)
- Decades without review of processes
- Internal control environments have deteriorated as finance staffing levels eroded
- Single classification positions that hamper flexibility
How did we get here...

- Cities grew without adjusting internal systems
- Finance software system struggles
  - Still using legacy systems based in 80’s / 90’s
  - Layering of add-on systems for budget, transparency, web interfaces
  - Incomplete / inadequate implementation of new software
- More intense pressure
  - Fiscal challenges (solvency a real issue)
  - Greater scrutiny (SCO, SEC, DOF, Auditors, public, etc.)

Who benefits...and how?

- City Manager / Assistant City Manager
- New Finance Director
- Old Finance Director
- Finance Staff
- Departments who depend on Finance
Why now?

- Challenging times put more pressure on…
  - Timely, accurate financial statements
  - Maintaining credibility (audit findings)
  - Ensure funds assumed in budget tie to CAFR
  - Retention of finance staff

- Financial consequences

- Poor controls reflect on management: You are responsible!

- If not now, when?

Common Weaknesses
#1 Control over revenues

- Inadequate control over billing
- Payments not directed centrally
- Revenues not adequately analyzed
- Limited cash controls

Consequences:
- Embezzlement
- Missed billings
- Financial misstatements
#2 Control over subsystems

- How are they integrated with GL?
- Regularly reconciled?
  - utility billing module
  - business license
  - class registration
  - building permits

Consequences:
- Embezzlement
- Financial misstatements
#3 Grant Oversight

- Central oversight of grants
- Complete grant inventory
- Consistent procedures

Consequences:
- Loss of funds due to insufficient spending or timely reimbursement requests
- Audit findings
- Repayment of grant funds
#5 Benefits reporting on W-2s

- Rules are increasingly complex
- Requires coordination between benefits administration and payroll
- Requires knowledge of what payments to employees are reportable (cash payments, group life, take-home vehicles, health club reimbursements)

**Consequences:**
- Refile 941’s
- Reissue W-2’s
#6 Policy Review

- GFOA recommended financial policies
  - Do they exist?
  - Are they accessible?
  - Are they current?
  - Are they followed?

- Not all agencies have updated their policies to be compliant with new requirements:
  - Debt Policy – State guidelines
  - Purchasing Policy – Uniform Guidance / Federal Grants

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  - Third party administrators
  - County assessor (special taxes)
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  - Rate consultants (utility, development fees)

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  - District tax administration (special taxes, fees)
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  - Continuing disclosure
  - Third party administrators
  - County assessor
  - Report preparation
  - Rate consultants
  - District tax administration
  - Benefit design (health plans, retirement programs)

#7 Consultants / intermediaries
(continued)

You can delegate work;
You can delegate tasks;
You cannot transfer responsibility.
#8 Risk Management

- Usually not done well without a Risk Manager
- Function split among 2-4 departments
- Insurance Requirement Setting / Monitoring
- Funding Policies not always clear
- Risks assumed and not transferred

#9 Budget

- Discrepancies between Budget & CAFR
- Reserves not treated consistently
- Fund balances not measured consistently
- Policy statement conflicts
  - Budget control at line or fund level?
- Pattern of exceeding authorized spending
#10 Finance and other Departments

- Departments don’t follow rules and finance staff do not understand why
- Mutual frustration
- Issues impacting recurring activities are worth resolving…
  - Accounts receivable
  - Cash Deposits
  - Invoice approval
  - Purchasing
  - Timecards
  - Budget Amendments

Other compliance issues

- Use tax reporting
- FLSA overtime calculations
- Continuing disclosure
- Monitoring of contractual NTE’s
- Maintaining outdated language in Muni Code and/or Administrative Polices
- Fee schedule doesn’t tie to Council-approved resolutions and ordinances.
- Lack of compliance review / compliance audits
Recap...

• Financial consequences of not checking in
  • Financial Reporting
  • Loss of funds / ignored funds / programming non-existent funds
• Inadequate systems aren’t good for…
  • Morale
  • Productivity
  • Peace of mind
  • Internal Control Comments/Findings
  • Perception of Finance Department by others

• The fruit won’t be hanging any lower than it is now!

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