

Common Finance Department Deficiencies

Kevin Harper



Kevin W. Harper CPA & Associates

Rebecca Gebhart



Alameda County
Health Care Services Agency

February 18, 2021

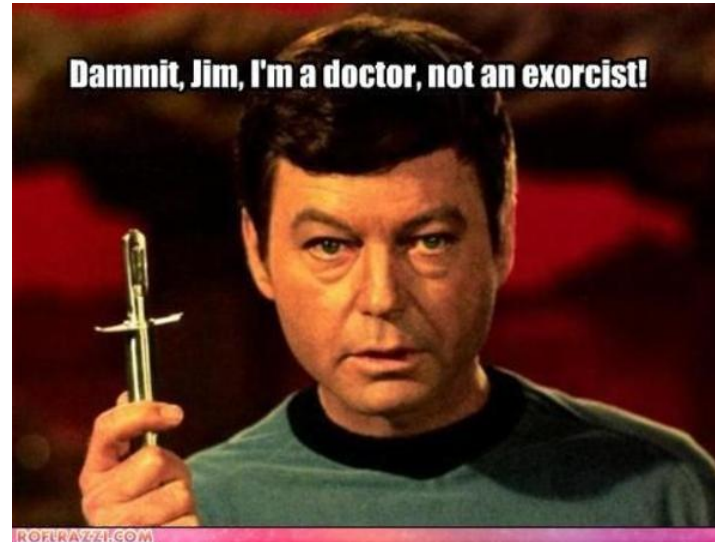
INTRODUCTION

Common deficiencies:

- ▶ Preparing budgets
- ▶ Business process management
- ▶ Working with program staff
- ▶ Managing grants
- ▶ Managing finance staff
- ▶ Long-term financial planning



DOCTOR, HEAL THYSELF!



**AN APPLE A
DAY KEEPS THE
DOCTOR AWAY**



Do No Harm

PREPARING BUDGETS



PREPARING BUDGETS

Deficiencies

- Complexity can lead to confusion, and errors
- Time crunch can cause omissions or inaccuracy
- Errors may be difficult to correct
- Inconsistent preparation of back-up causes confusion
- Staff don't ask questions when they don't understand

PREPARING BUDGETS

Best Practices

- Get Budget Preparation on calendars early
- Use a timeline, and stick to it
- Get as many tasks done prior to the kick-off as possible
- Hold meetings to review revenue and expense accounts, definitions, costs centers, to ensure a shared understanding
- Use templates to assure consistency in back-up
- Encourage questions!



BUDGET DEVELOPMENT TIMELINE

FY 2021-2022 BUDGET DEVELOPMENT TIMELINE

TASK	STATUS	START	DUE	LEAD(S)
PREPARING FOR BUDGET DEVELOPMENT				
Clarify the budget and account structure	In Progress	12/01/20	12/31/20	Naomi, Alex
Enter any new Org Budget in ALCOLINK Financials	In Progress	12/01/20	12/20/20	Alex
Assign Finance Lead Key Roles	Completed	11/20/20	12/20/20	James, Alex, Tamarra
Update Budget Development Templates	Completed	10/21/20	12/20/20	Alex, Helen
Conduct County Budget Development Training for Finance Leads	In Progress	10/26/20	TBD	Naomi, Stephanie, James, Alex
Prepare Position (Control) Analysis Report	In Progress	12/15/20	12/18/20	Stephanie Watts
CALCULATE S&EB COSTS BY COST CENTER				
Finance Leads to review and confirm that all positions in their assigned cost centers are in the correct cost center		12/18/20	12/31/20	Finance Leads
Calculate allocation of account-level S&EB to Cost Centers using 2 Salary Sheet Reports (Position- and Account-Level)		12/18/20	12/27/20	Finance Leads
Calculate costs of staff who are unbudgeted in S&EB (position analysis) using Position Control & Salary Sheets		12/18/20	12/27/20	Finance Leads
Update Position Analysis Report (using December Position Control Report)		01/06/21	1/8/21	Stephanie Watts
Request Position Request (PREQ) journals from CAO		01/06/21	1/8/21	James
Prepare Reclass & Transfer worksheet from PREQ journals		01/22/21	1/26/21	Alex, TBD
Analyze Reclass & Transfer worksheet		01/26/21	1/29/21	Alex and Finance Leads
PREPARE BUDGET DEVELOPMENT WORKSHEETS				
Prepare Position Analysis Report by Cost Center to include budgeted and unbudgeted positions	In Progress	12/18/20	12/28/20	Finance Leads
Prepare CBO Contracts worksheet and include NCC increase (3.25% COLA) for contracts funded with General Funds	In Progress	11/30/20	12/21/20	Finance Leads
Prepare Interdepartmental Charges (610441) worksheet	In Progress	11/30/20	12/21/20	Finance Leads
Prepare Inter-Fund Transfers (660001 & 660011) worksheet	In Progress	11/30/20	12/21/20	Finance Leads
Prepare Operating Transfers Account (670011 & 485110) worksheet		12/22/20	1/4/21	Finance Leads
Prepare Revenue worksheet		12/22/20	1/4/21	Finance Leads
Create budget folder for each program that includes all worksheets, including Position Analysis, CBO Contract, Interdepartmental Charges, Inter-Fund Transfers, Operating Transfers and Revenue	In Progress	11/30/20	12/18/20	Finance Team

PREPARING BUDGETS

Categories of Revenue

- Taxes, Permits & Franchises, Fines, Forfeits & Penalties
- Use of Money or Property
- Aid from Governmental Agencies (State, Federal & Local)
- Charges for Current Services
- Other Revenue
- Other Financing Services



PREPARING BUDGETS - DEFINITIONS OF REVENUE

ACCOUNT CODE	ACCOUNT NAME	TYPE	DEFINITION
417010	Sales & Use Taxes	Taxes	Net amount received from the levy of a sales and use tax under the Bradley-Burns Uniform Sales Tax Law; Sec. 7201 R&T
420210	Business Licenses	Permits and Franchises	Revenues from businesses and occupations that must be licensed before doing business within the County; Secs. 4123, 16100, 16004 BP
421010	Other Licenses & Permits	Permits and Franchises	Revenues from all licenses and permits not included elsewhere; Secs. 25826, 26840, 53942 Govt Code
430210	General Fines & Forfeits	Fines, Forfeits and Penalties	Revenues from court fines and forfeiture of bail for violations other than the State Vehicle code and Fish and Game code
440110	Interest on Investments	Use of Money or Property	Earnings on investments and adjustments for gains and losses on sale of investments
451110	Realignment-Sales Tax	State Aid	State allocation of sales and use taxes
451120	Realignment-VLF	State Aid	State allocation of vehicle license fees
454900	Miscellaneous State Aid	State Aid	Amounts received from the State for any purpose not included elsewhere
456110	Federal Health Administration	Federal Aid	Amounts received from the Federal for the administration of the County health programs
456112	MAA	Federal Aid	Amounts received from the Federal for Medi-Cal Administrative Activities program
456113	TCM	Federal Aid	Amounts received from the Federal for Targeted Case Management program
456120	Federal Health Programs	Federal Aid	Amounts received from the Federal to provide health services to the public

PREPARING BUDGETS - USING TEMPLATES

FY 2021-2022 Budget Development Interdepartmental Charges (Account 610441)

Cost Center	Charging Department	Description	Contact	Agreement	Frequency	2021 Budget	Adjustments	2022 MOE
							-	-
								-
								-
								-
							-	-
							-	-
Total						-	-	-

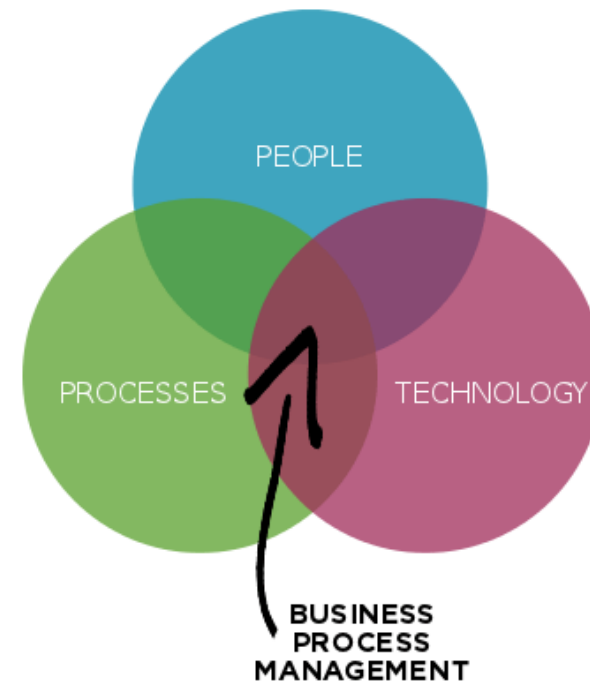
Example

Cost Center	Charging Department	Description	Contact	Agreement	Frequency	2021 Budget	Adjustments	2022 MOE
350101-00000	Office of County Counsel (OCC)	OCC Legal services	Ellen Duenas/Aileen Martija	Email	Biannual	278,078	-	-

BUSINESS PROCESS MANAGEMENT

Background

- ▶ Business processes (AP, PR, CR, GL, Budget) have no process owner
- ▶ All processes start in depts and end in Finance
- ▶ Informal roles in each business process
- ▶ Any process is improving or deteriorating



BUSINESS PROCESS MANAGEMENT



Deficiencies

- ▶ No monitoring whether process is improving or deteriorating
- ▶ No one person understands entire process
- ▶ No focal point to identify and fix inefficiencies
- ▶ No sharing of best practices between departments
- ▶ Finance thinks depts don't care/depts think Finance doesn't understand

BUSINESS PROCESS MANAGEMENT

Best Practices

- ▶ Workgroups
 - ▶ Establish for disbursements, receipts, payroll, grants
 - ▶ Improve effectiveness/efficiency of process
 - ▶ Meet 2-4 times per year
- ▶ Error logs
 - ▶ List all inefficient or incorrect transactions
 - ▶ Identify trends
 - ▶ Develop improvement plans



BUSINESS PROCESS MANAGEMENT

Handout - Error log for accounts payable

Payment Identification				Error/Issue*	Comments
<u>Voucher #</u>	<u>Date</u>	<u>Payee</u>	<u>Amount</u>		
* Key:					
1	No claim form/wrong claim form used				
2	Vendor ID info on claim form and invoice not match				
3	Amounts on claim form and invoice not match				
4	Improper account coding				
5	Lack program head or employee signature				
6	Amount exceeds available PO balance				
7	Mathematical error				
8	Direct claim exceeds \$3000 per FY so PO needed				
9	Lack supporting documents				
10	Inaccurate/incomplete/missing vendor application				
11	Program slow to submit invoice (invoice date >2 weeks ago)				
12	Incorrect/duplicate invoice				
13	Inappropriate use of "Rush" processing				
14	Inappropriate use of "Return to Department" checks				
15	Other - describe in comments section above				

14

WORKING WITH PROGRAM STAFF



WORKING WITH PROGRAM STAFF

Deficiencies

- Finance and Program staff are not aligned.
- Program staff don't prioritize time for Financial activities
- Finance staff are unaware of key activities and don't include in the forecast
- Customer service is poor when reports for Programs are inaccurate

WORKING WITH PROGRAM STAFF

Best Practices

Training for Finance staff IS CRITICAL

- to ensure they know how to support Program,
 - this is often not intuitive but can be taught!
- Teach Finance to reach out to Program staff, so Program knows that projections are scheduled and have allocated time
- Teach Finance staff to know the questions to ask Program about upcoming activities, so they are correctly reflected in the forecast,
- Teach Finance staff to use Program time efficiently
- Give Finance tools to assist (Forecasting Review Checklist)



QUARTERLY FINANCIAL PROJECTIONS

Review Checklist

- Staff changes (additions, subtractions, adjustments, charges)
- Contract status/corrections (unencumbered, encumbered)
- Expense status/corrections (additional expenses or savings)
- Revenue status/corrections (new funding or revenue cuts)
- Debits and/or credits to/from other programs
- Unplanned events that were not included in adjusted Budget
- Actuals vs. Budget variances
- Discuss strategies to address projection overages or underages
- Explain how to annotate line items effectively

MANAGING GRANTS

Deficiencies

**Free
\$
Money!**

- ▶ Inherent problems in decentralized process
 - No one understands entire detailed process
 - Accounting info not easily accessible
 - Basic grant info not easily accessible
 - No communication protocols
 - Inadequate centralized oversight
- ▶ Departments apply for grants but don't notify Accounting
- ▶ Reimbursement requests not reconciled to GL nor reviewed
- ▶ Grant records maintained poorly
- ▶ Non-compliance with grant provisions
- ▶ Grant not billed & collected timely

MANAGING GRANTS

Best Practices

- Planning meeting
- Workgroup
- Each grant set up separately in accounting records
- Written procedures and related training
- Grants status report
- Close-out meeting

GRANT STATUS REPORT

Grant Status Report										
at March 31, 2020	A	B	C	D	E	F	G	H	I	J
			Revenues						Grant Period	
Grantor	Grant Amount	Expenditures life-to-date	Received to date	Billed & not collected	Not yet billed	Total	Available grant balance	Last date billed	Start	End
REIMBURSEMENT GRANTS										
US Dept of HUD	1,000,000	717,088	649,088	40,000	28,000	717,088	282,912	9/30/2016	1/1/2015	12/31/2017
State Dept of Transportation	200,169	174,325	160,000		14,325	174,325	25,844	12/31/2016	7/1/2016	6/30/2017
US Dept of Navy	4,473	3,384	3,384			3,384	1,089	9/30/2019	7/1/2019	6/30/2020
Gates Foundation	20,000	14,386	14,386			14,386	5,614	12/31/2019	7/1/2019	6/30/2020
State Dept of Corrections	1,500,000	699,129	160,413		538,716	699,129	800,871	9/30/2019	7/1/2019	6/30/2020
US Dept of HHS	3,300	-				-	3,300	3/31/2020	7/1/2019	6/30/2020
Sub-total	2,727,942	1,608,312	987,271	40,000	581,041	1,608,312	1,119,630			

MANAGING THE FINANCE STAFF

Deficiencies

- Staff turnover is epidemic
- Recruitment is difficult
- Turnover causes units to be shorthanded and overburdened
- Staffing shortfalls may cause late and inaccurate work
- New programs don't include money for finance staff

MANAGING THE FINANCE STAFF

Best Practices

- Your job is to equip your staff to do their job.
- Always include Training - Monthly staff meetings
- Design custom trainings - before Year-end, or any financial phase (like the budget, or the quarterly forecast) for anticipatory guidance
- Create Work groups - Weekly YE work group meetings to go through the whole Year-End dashboard so all staff could see and hear and learn
- Cross training the team ensures back-up when one person is promoted, retires or separates.
- Document the Processes
- Group Debrief - use as a training opportunity

MANAGING THE FINANCE STAFF

Tools

- PowerPoint Training Presentations
- Debrief
- Knowledge Transfer Documents

MANAGING THE FINANCE STAFF



FY 2020 Year-End Evaluation

- ① What helped you to be successful with year-end?
- ② What did you find challenging or difficult?
- ③ What would you do differently next year?

LONG-TERM FINANCIAL PLANNING

Deficiencies

- ▶ Many don't do any long-term financial projections
 - ▶ “Don't want to scare everyone”
 - ▶ “We'll handle it when it happens”
 - ▶ “It wouldn't be accurate anyway”
- ▶ Not tied to strategic plan
- ▶ Assumptions not documented, reviewed, understood
- ▶ Elected officials have short time horizons



LONG-TERM FINANCIAL PLANNING

EXAMPLE OF STRATEGIC PLAN GOAL:

Quality of Life

- ▶ We will continue to make Anytown a place to live, work, and play that provides diverse activities and amenities in a safe and well-maintained environment, while supporting the arts and promoting the health and wellness of our community.
 - ▶ Construct new recreation facility and increase participation in programs and activities that foster a healthy, quality lifestyle by 30% by FY 2021.
 - ▶ Ensure a safe community by increasing police officer pro-active time to 40% and improve fire response times by 15 seconds by FY 2021.
 - ▶ By FY 2021, ensure availability of water to support growth of the city for the following 10 years.

LONG-TERM FINANCIAL PLANNING

Best Practices

- Quantify cost of implementing strategic plan
- Minimum of five years/allows view of economic cycles/planning adequate reserves
- Project using budget tools and formats
- Project large revenues and expenses individually
- Government-wide vs. General Fund
- Document and review assumptions



LONG-TERM FINANCIAL PLANNING

(in thousands)	2019/20 Actuals	2020/21 Budget	2021/22	2022/23	2023/24	2024/25	2025/26
Beginning Fund Balance	<u>\$6,458.0</u>	<u>\$7,334.8</u>	<u>\$7,684.1</u>	<u>\$7,720.6</u>	<u>\$7,424.8</u>	<u>\$6,776.3</u>	<u>\$5,753.8</u>
Property Taxes	8,711.9	9,263.5	9,448.8	9,637.7	9,830.5	10,027.1	10,227.7
Sales Taxes	5,782.1	5,563.4	5,702.5	5,845.0	5,991.2	6,141.0	6,294.5
Fees & Fines	3,638.7	3,993.0	4,092.8	4,195.1	4,300.0	4,407.5	4,517.7
Charges for Services	920.0	910.9	933.7	957.0	980.9	1,005.5	1,030.6
Investment Income	1,156.0	725.0	743.1	761.7	780.7	800.3	820.3
Other	<u>115.6</u>	<u>221.8</u>	<u>227.3</u>	<u>233.0</u>	<u>238.9</u>	<u>244.8</u>	<u>250.9</u>
Total Revenues	20,324.3	20,677.6	21,148.2	21,629.7	22,122.2	22,626.1	23,141.7
Expenses							
Personnel Costs	13,637.3	14,390.7	14,966.3	15,565.0	16,187.6	16,835.1	17,508.5
Professional Services	1,920.1	1,997.5	2,067.4	2,139.8	2,214.7	2,292.2	2,372.4
Supplies & Equipment	1,686.9	1,534.0	1,587.7	1,643.3	1,700.8	1,760.3	1,821.9
Facilities	993.7	1,100.1	1,138.6	1,178.5	1,219.7	1,262.4	1,306.6
Debt Service	661.2	622.2	644.0	666.5	689.8	714.0	739.0
Other	<u>548.3</u>	<u>683.8</u>	707.7	732.5	758.1	784.7	812.1
Total Expenses	<u>19,447.5</u>	<u>20,328.3</u>	<u>21,111.7</u>	<u>21,925.5</u>	<u>22,770.7</u>	<u>23,648.6</u>	<u>24,560.5</u>
Ending Fund Balance	\$7,334.8	\$7,684.1	\$7,720.6	\$7,424.8	\$6,776.3	\$5,753.8	\$4,335.0

YOU ARE THE DOCTOR!



QUESTIONS?



Kevin W. Harper CPA & Associates

Kevin Harper

kharper@kevinharpercpa.com

(510) 593-5037



Alameda County
Health Care Services Agency

Rebecca Gebhart

Rebecca.Gebhart@acgov.org

(510) 667-3024