Trusted Advisor or Compliance Enforcer?

"Can anybody remember when the times were not hard and money not scarce?"
Ralph Waldo Emerson

Of all the various roles Finance can play in government, the two most necessary to balance are complying with legal, tax and regulatory requirements and dispensing sound advice on the efficient allocation of capital and resources. In the first, Finance must focus on policy standards and governance requirements. In the second, it leverages its extensive expertise in understanding what resources are required to generate the income or funding needed to fulfill its legislative mandates. It is uniquely positioned to play this second role because, while most governmental organizations push as far as they can in a single goal-oriented direction, Finance must evaluate contrasting economic realities to manage operations in a world of rising demand for government services and limited resources.

How Finance strikes this balance (and many others) to a large measure determines the success or failure of the operational mission. *Is your budget a tool to control costs, or to improve the efficiency/effectiveness of government allocation of resources through enlightened analysis?* Depending on economic circumstances, and where various public needs and services fall in political life cycles, one choice is better than the other.

Finance is the central nervous system of most organizations, and government is no different. Government decisions that use a structured finance-based approach to evaluate the soundness and integrity of operational propositions will inherently be more effective. Information feeds this process, and Finance has more information than most departments. As it fills its role of balancing—aligning processes and controls while advising on future directions—Finance faces a number of barriers when it comes to information and how to use it.

Barrier 1: ***Lack of information needed to regulate what has happened and shape what will happen***

In today's complex world, Finance needs better information—richer, more accurate and timely—about past and present processes and events to meet its surplus requirements and regulatory compliance responsibilities, such as the Federal Managers Financial Integrity Act (FMFIA) in the U.S.

Did the right employee or department approve a particular services request (operational risk)? Did the appropriate government evaluation approval process and risk assessment take place before funding a new policy initiative (financial risk)? Do authorized suppliers have sufficient resources and credentials to fulfill contract obligations (operational risk)? For some government organizations, the information demands of compliance and control have forged better relationships between Finance and IT. They have led to changes in information gathering and collaboration methods, such as converting disconnected spreadsheets into a collaborative, dynamic performance management solution, for example, to analyze and drill down into risk control detection and prevention details.

But while Finance works to manage these issues, it must also ensure the information investment helps drive its other key responsibility: helping guide decisions that make a difference for achieving mission results and financial accountability.

A well informed executive team and heads of workforce functions all look to Finance to help the total organization plan its future with confidence, not simply manage compliance and controls. Finance must pay attention to the drivers that comprise official results, using value-added analysis to extrapolate the impact of these drivers on tomorrow's results—and anticipate them when necessary.

Valuing, monitoring and making decisions about intangible assets exemplifies the interconnection and sophistication of the information Finance requires. Regarding the management of human capital, for example, Human Resources and Finance must work together to understand and anticipate future mission requirements and the organizational resources that will be required to achieve that mission, and aligning the organization to assure that its mission will be achieved. This includes identifying skill requirements and skill gaps, understanding the value-creating roles of individuals to reflect their worth, and managing their growth, rewards and expenses.

Without information sweet spots that show both the status of control and compliance and the impact of drivers on future mission fulfillment opportunities, Finance can't strike the necessary balance.

> ***"Following a budget planning meeting, in only two hours we were able to develop three or four different roll-ups and scenarios for review by the board the next morning. A month ago, with all of the downloads from various data sources into Excel, not to mention the hoop games required to deliver different views of the budget, this would have been physically impossible."***
>
> Judith M. Marte, Chief Budget Officer, Miami-Dade County Public Schools

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Barrier 2: ***The relevance, visibility and credibility of what you measure and analyze is designed for accounting rather than management***

Finance collects, monitors and reports information with distinct legal, tax and organizational requirements to fulfill its fiduciary role. But Finance also needs an integrated view of these and other information silos to fulfill its role of advisor. This role requires not simply reporting the numbers, but adding value to those numbers.

For example, executives must understand the costs related to various activities and services. For government, this typically means tying spending to program outcomes to understand what kind of return—e.g., improved social outcomes—the agency is getting from its investments. Government finance needs to shift its perspective from merely tracking and managing line-item costs to measuring the performance of a budget against the desired program outcomes. Finance must, therefore, categorize relevant financial line items across a wide range of detailed general ledger accounts to assure there is an integrated overview of financial accountability. This is essential to serve executives who lack a comprehensive understanding of revenue sources, legislative funding and expenses growth to make effective decisions.

Many senior budget owners believe their greatest sin is to overspend their budget. In comparison, there is relatively small accountability for failing to obtain appropriate results with the budget that is spent. This is clearly a cultural issue that is fairly prevalent in government, resulting in a performance culture that is diligent about spending budgets to the last penny, but does not aspire to track the performance outcomes as vigorously.

Barrier 3: Finance must balance short term and long term, detailed focus and the big picture

Finance balances different and contradictory requirements. It must deliver on political leaders' near-term expectations for every new administration, while it must also lay out a vision and long-term strategy. For government, outcomes can only be measured in many years, rather than quarters or fiscal years as in commercial organizations. Government can (and does) cut costs to meet near-term directives, but at what point does this affect long-term mission results? This is THE fundamental challenge government executives continually face—balancing near-term fiscal prudence against longer term goals, and prioritizing program spending while balancing social outcomes and political expediency. With the right information, a well-informed government executive team is better able to explain the drivers, opportunities and threats when balancing short- and long-term financial decisions.

Executives and financial analysts typically define performance in terms of value creation. This makes metrics such as economic value added (EVA) an important foundation for long-term planning. However, these distilled financial measures can only tell part of the story. Much of the role of government is to deliver social outcomes rather than value creation. EVA is clearly relevant for longer term projects, such as implementing a new Health and Human Services Entitlement System, where phases of completion can be distinct and the value to that point is measured. However, for much of government finance, which also encompasses multiperiod program spending, more detailed measures must be added that capture risk ratios, asset quality, operating efficiency, market changes and operational targets. In this way, Finance demonstrates its real value in government: performance that continuously balances long- and short-term vision.

Barrier 4: ***Finance must find the path between top-down vision and bottom-up circumstances***

To what extent should goals be set top-down versus bottom-up? *If the executive team mandates accelerated targets, does this translate into sensible targets at the lower levels of the organization? Does it require a financial target contribution to be balanced with operational projections?*

Top-down financial goals must be adjusted to bottom-up performance risk realities. Finance must accommodate political vision and expediency while crafting performance targets that organizational units can achieve, generating measurable results while avoiding mistakes typically due to insufficient financial oversight. This requires a fairly deep level of sophistication in analysis, planning and metrics up and down the organization, which most organizations have yet to develop.

Financial responsibility definition constitutes a performance barrier, particularly as it illustrates the importance of engaging frontline managers in financial reporting, planning and budgeting. For many government managers, however, the budget process is a black-hole exercise, with the resulting budget they get back bearing little resemblance to the budget request they submitted. The need to adjust to changing external conditions and reallocating resources requires that decision makers have timely and relevant information supported by a budget planning process that is flexible and collaborative. Frontline managers must assume some budgetary responsibility and feed back changes from various budget centers as market conditions evolve. Such a decentralized model engages the whole organization rather than relying on a centralized function to generate and administer bureaucratic information.

Besides freeing up Finance for value-added decision support, rather than just validating the numbers, bottom-up participation generates financial plans that overcome hurdles of relevance, visibility and credibility. Individuals who engage in the process take responsibility for delivering on expectations, especially when they “own” the numbers. This helps expose drivers of success and failure that are otherwise lost in a larger cost calculation or financial “bucket”—for both the frontline government manager and Finance.

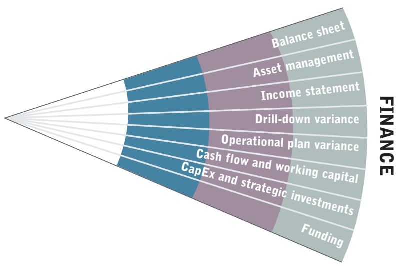
Balancing Short Term and Long Term, Past and Future, Compliance and Advisor

The information Finance uses to report what has happened and shape what will happen is critical to the rest of the organization. Dynamic tools that allow Finance to balance compliance and performance, accounting and organization structures, short term and long term, top-down vision and bottom-up reality, are more important than ever. Information sweet spots can support Finance's responsibilities and decision areas.

A Balanced Financial Experience

Finance decision areas include:

- **Balance sheet ➔** How do we balance and structure the financial funding options, resources and risks within government accounting standards?
- **Asset management ➔** How do we drill down to operational details to identify the untapped potential within them?
- **Income statement ➔** How did the government executive management team score? Where was performance strong or weak in relation to goals and financial risks?
- **Drill-down variance ➔** What is causing changes in financial performance?
- **Operational plan variance ➔** How do we best support, coordinate and manage the delivery of meaningful plans?
- **Cash flow and working capital ➔** How do we monitor cash use effectively?
- **Capital expenditure** (CapEx) **and strategic investments ➔** What are investment priorities and why?
- **Funding ➔** How can we efficiently manage cash, investment income requirements and cost of capital decisions for funding requirements?



Balance Sheet

The ratios generated from the balance sheet are frequently top of mind with Finance executives, who not only seek to balance the financial structure of assets and liabilities, but increasingly also to manage asset/liability risks. These activities are associated with managing risk profiles for different financial cycles and, since capital and risk are connected, the balance sheet and the associated capital adequacy standards are a key concern for long-term strategic plans. Demonstrating there are effective Internal Controls for Financial Reporting (ICFR) is now an accounting standard in countries that require risk assessment audit assertions to accompany the annual statements of results.

With increased statutory oversight and the need to profile the risks associated with reserves and capital allocations, government accountability focus on the balance sheet has increased dramatically. The ability to leverage commitments both on and off balance sheet in a volatile market environment with the associated risks directly impacts the ability to calculate financial surplus.

GOALS	METRICS	DIMENSIONS
Return on Assets	Opening Balance ($)	Reporting Period
Return on Surplus	Average Balance ($)	Year
	Ending Balance ($)	Quarter
	Debt ($)	Month
	Surplus ($)	G/L Financial Accounts – Bal Sheet Lines
	Fixed Assets ($)	Class
	Fixed Assets/Assets (%)	Sub-class
	Liabilities ($)	Account
	Liabilities-to-Surplus (%)	G/L Account Risk Rating (ICFR)
		Risk Rating
		Organization
		Division
		Department
		Org. Code
		Plan/Actual Scenario
		Scenario

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit	Executives			•
	Managers	•		
	Professionals	•		
Program Management	Executives		•	
Services	Executives		•	
General Management	Executives			•
Legal	Executives			•
Risk Management	Executives			•

Asset Management

Drill-down from the balance sheet into multiple asset types improves asset-related decision making. This analysis covers workforce, facilities, materials, procurement contracts and all items related to return on asset (ROA) evaluation. Government operational asset management reports include program planning and control activities for preventative, predictive, routine and unplanned maintenance. Together these programs contribute to goals for reducing costs and increasing asset up-time. Asset management information connects finance to operational realities. The ability to make these links reduces administrative time and increases labor productivity.

GOALS	METRICS	DIMENSIONS	
Asset Productivity Asset Up-Time	Asset down-time Asset maintenance events Asset revenue Asset expense Asset depreciation	Reporting Period Year Quarter Month Organization Division Department Org. Code G/L Financial Accounts Bal Sheet Lines Class Sub-class Account	Asset Types Asset Type Asset Materials MaterialType Material Vendor Types VendorTypes Vendors Contracts ContractTypes Contracts

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit				
	Executives			•
	Managers	•		
	Professionals	•		
Operations/Production				
	Executives			•
	Managers		•	
	Analysts		•	
Human Resources				
	Executives		•	
	Managers		•	
Procurement				
	Managers		•	
	Professionals		•	
Legal				
	Executives			•
	Professionals		•	
Program Management				
	Executives		•	
Services				
	Executives		•	
General Management				
	Executives			•

Income Statement

This decision area represents the bottom line in financial evaluation of results. It is the cumulative score achieved by everyone in the organization for a set period. Everyone needs to understand his or her individual contribution and performance measured against expectations from citizens, administrators and regulators. You must understand where variances above budget occur, so you can correct the course. If costs are increasing too quickly, you risk damaging future solvency unless you control them, adjust revenue or develop additional funding. Adjustments such as these take time, and the sooner you take action, the sooner you improve financial stability. The ability of Finance to quickly identify, analyze and communicate important variances has survival implications. How quickly the government organization resolves a new situation is determined by how quickly it discovers budget variances and confirms accountability for financial reporting process controls.

GOALS	METRICS	DIMENSIONS
Net Contribution	Income Target - Actual Operating Expense Target - Actual Management Expense Target - Actual GL Account Risk Rating	Reporting Period Year Quarter Month Organization Division Department Org. Code G/L Financial Accounts – Income Statement Class Group Account Financial Account Risk Rating (ICFR) Risk Rating Services Service Type Service Plan/Actual Scenario Scenario

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit				
	Managers	•		
	Professionals	•		
Human Resources				
	Executives		•	
	Analysts		•	
Services				
	Executives		•	
Program Management				
	Executives		•	
IT/Systems				
	Executives		•	
Operations/Production				
	Executives		•	
Procurement				
	Executives		•	
Tax				
	Professionals		•	
General Management				
	Executives			•

Drill-Down Variance

Once you identify a difference between actual and plan, you need to drill down into the details to understand what caused it. *If the expense ratio increases by five percent between two time periods, was the cause greater transaction volume, lower revenue or a change in the mix? Did other government organizations have the same increase? Alternatively, have internal changes impacted costs or possibly the process used to allocate departmental costs? What are the drivers of these allocations, and are they directly attributable to the activity?*

Finance needs to understand the *why* behind changes. Explaining what drove changes in revenues, expenses and resources provides a more complete picture to help guide the organization's ongoing mission.

GOALS	METRICS	DIMENSIONS	
Income Change (%) Expense Change (%)	Income Net Balance ($) Expense Net Balance ($) GL Account Risk Rating	Reporting Period Year Quarter Month Organization Division Department Org. Code G/L Financial Accounts Class Group Account	Accounting Method GAAP/Cash Method Services Service Type Service Plan/Actual Scenario Scenario G/L Account Risk Rating (ICFR) Risk Rating

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit	Executives			•
	Managers	•		
	Professionals	•		
Customer Service	Executives			•
	Analysts		•	
Program Management	Executives			•
	Analysts		•	
Operations/Production	Executives			•
	Analysts		•	
Procurement	Executives			•
	Analysts		•	
Services	Executives			•
	Analysts		•	
General Management	Executives			•
Risk Management	Executives			•
IT/Systems	Executives			•
Human Resources	Executives			•

Operational Plan Variance

Once Finance understands what caused performance variances, it can lead discussions about future operating plans. The ability to advise and push back on management plans is important. Knowing the *why* behind variances from plan helps organizations reevaluate and improve the next plan. Without this information, plans lose their purpose and become academic exercises to please senior management. Ideally, Finance offers input and feedback that other areas can use for guidance. At the same time, these other areas provide frontline information to Finance that helps improve the plan. Such cross-functional and coordinated effort lets you test the roadworthiness of existing operational plans.

GOALS	METRICS	DIMENSIONS
Expense Ratio	Actual vs. Plan ($/%)	Reporting Period Year Quarter Month
Operating Cost Variance ($/%)	Plan / Forecast ($)	Organization Division Department Organization Code
Overhead Cost Variance ($/%)	Department Costs ($/%)	G/L Financial Accounts Class Group Account
	Salary Costs ($/%)	Services Services Type Service
	Employees (#)	
	Direct Expenses	
	Other Expenses ($/%)	
	Overhead Costs ($/%)	
	Income per Employee	
	Claims filed per Employee	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit				
	Executives			•
	Managers	•		
	Professionals	•		
Customer Service				
	Executives			•
	Analysts		•	
Program Management				
	Executives			•
	Analysts		•	
Operations / Production				
	Executives			•
	Analysts		•	
Procurement				
	Executives			•
	Analysts		•	
Services				
	Executives			•
	Analysts		•	
Human Resources,				
	Executives			•
	Analysts		•	
General Management				
	Executives			•
IT/Systems				
	Executives			•

Cash Flow and Working Capital

Effective cash management is a standard of professional performance. The management of cash balances is also associated with reserve management and the objective to minimize cash holdings. When cash balances increase significantly, finance managers need to evaluate if this is a short- or long-term occurrence and consider the appropriate action. Equally, a cash shortage will require contingency plans that affect operational decisions. This daily financial control activity extends to a cash management role. *Do cash positions reconcile? If not, why not?* Without the systems and information to manage these positions effectively, there are likely to be missed opportunities to achieve mission objectives.

GOALS	METRICS	DIMENSIONS
Net Cash Flow ($/%) Working Capital Ratio (%) A/R Days (#) A/P Days (#)	A/P ($) A/P to Revenue (%) A/R ($) A/R to Revenue (%) Revenue ($) Funding Income ($) Paid Claims ($) Operating Expense ($)	G/L Sources of Funds G/L Uses of Funds Financial Accounts - C/F Lines Class Sub-class Account Reporting Period Year Quarter Month Organization Division Department Organization Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit				
	Executives			•
	Managers	•		
	Professionals	•		
Services				
	Executives			•
	Managers	•		
	Analysts		•	
Procurement				
	Executives	•		
	Managers	•		
	Analysts	•		
Regulatory/Legal				
	Executives			•
	Analysts		•	
IT/Systems				
	Executives			•
	Analysts		•	
Operations/Production				
	Executives			•
	Analysts		•	
Program Management				
	Executives			•
	Analysts		•	
General Management				
	Executives			•
Risk Management				
	Executives			•

CapEx and Strategic Investments

Since capital expenditure (CapEx) has an impact on performance, government organizations must evaluate and monitor investment decisions carefully. Investments can range from minor to strategically significant; from a new computer to a new government program. Finance must ensure that CapEx and investment requests don't simply become wish lists. Finance must establish the basis for prioritizing and justifying capital expenditure. This means coordinating with different functional areas. For example, Finance must understand the impact of both yes and no before agreeing to new funding sources. *Will the organization be exposed to penalties or censure if funding is delayed? Will this action improve service standards or highlight data integrity problems? Will expense productivity efficiencies be made over the longer term?*

Understanding upside and downside impacts from potential investments is part of the evaluation process. Finance arbitrates such decisions, and requires detailed financial scenarios that forecast investment ROI and payback.

GOALS	METRICS	DIMENSIONS	
Investment ($) NPV ($) ROI (%)	Income Growth (%) Assets ($) Breakeven Months (#) Capital Employed Change ($/%) Fixed Assets ($) IRR (%) Payback Months (#)	G/L Financial Accounts Class Sub-class Account Accounting Method Accounting Method Reporting Period Year Quarter Month	Organization Division Department Organization Code Plan/Actual Scenario Scenario Potential Projects R&D Project Type Project Projects Project/Program Type

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit				
	Executives			•
	Managers	•		
	Professionals	•		
Legal/Regulatory				
	Executives			•
	Professionals	•		
Program Management				
	Executives			•
	Analysts		•	
IT/Systems				
	Executives			•
	Analysts		•	
Operations/Production				
	Executives			•
	Analysts		•	
Risk Management				
	Executives			•
	Analysts		•	
Services				
	Executives			•
	Analysts		•	
General Management				
	Executives			•

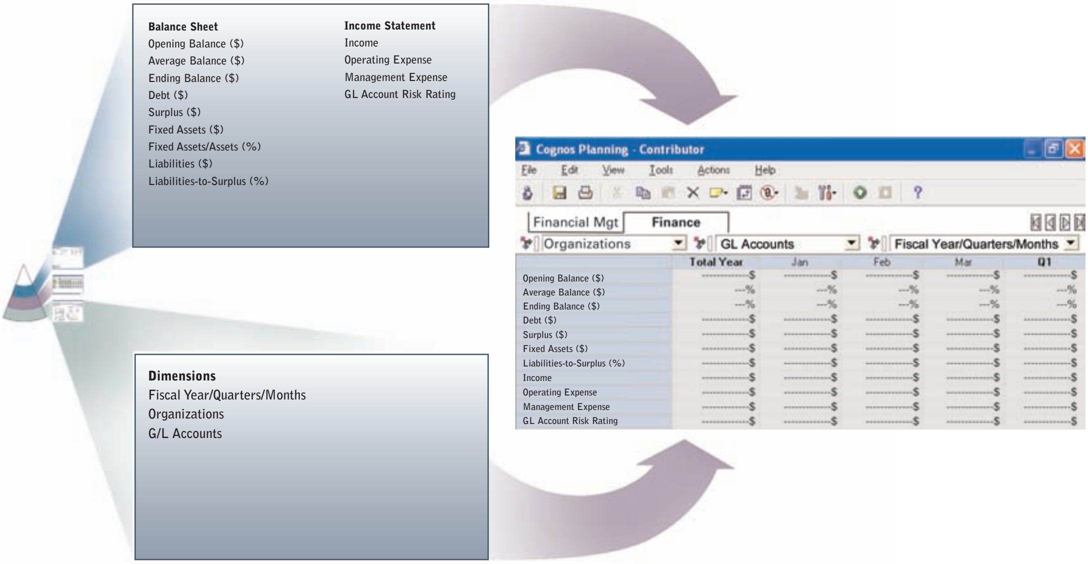
Funding

The Funding decision area moves beyond managing tactical cash balances into the broader area of matching financial plans and operational capacity with statutory responsibilities. Increasingly tailored solutions are available for finance executives to match government program fulfillment responsibilities with financial account controls and operational resource allocation tracking.

Effectively managing these asset/liability and liquidity options is a balancing act, and fine-tuning can make a difference. But without the appropriate system and information support, there will be lost opportunities in terms of defining the gaps between legal mandates and the operational capacity of finite resources.

GOALS	METRICS	DIMENSIONS
Program Funding (%) Investment Income ($/%) Investment Yield (%) Borrowing Cost ($/%) Net Liquidity ($) Municipal Bond Rating	Interest Rates Funding Requirements ($) Funding Income ($) Grant Income ($) Operating Income ($) Investment Income ($) Securities (#/$) Investment Risk Rating (Avg.) Investments - Market Value ($) Investments - Collateral Value ($) Investment Gains ($) Investment Losses ($) Accrued Interest ($)	Reporting Period - Year - Quarter - Month Grants - Grant Type - Grant Programs - Program Portfolios - Portfolio Valuation Buckets/Maturity Time Periods - Securities Price Aging Periods Security Types - Security Type - Security ID Depositories - Depository Custodians - Custodian / Security Account Cash Accounts - Bank / Account Types / Accounts Investment Managers - Inv Manager G/L Financial Accounts - Financial Statements - Class - Sub-class - Account Accounting Method - Accounting Method

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit				
	Executives			•
	Managers	•		
	Professionals	•		
Legal				
	Executives			•
	Professionals	•		
Program Management				
	Executives			•
	Analysts		•	
Risk Management				
	Executives			•
	Analysts		•	
Services				
	Executives			•
	Analysts		•	
General Management				
	Executives			•



The Income Statement and Balance Sheet decision areas illustrate how the Finance function can monitor its performance, allocate resources and set plans for future financial and operational targets.