

# Human Services Department Financial and Operational Improvement Plan

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# Overview

- Financial Management Background
- Prior Actions
- Operational & Financial Improvement Plan
- Project Status Update
- Highlighted Improvement Areas
- Next Steps
- Questions



# Financial Management Background

- Issues stem from HSD's capacity not keeping up with historic budget growth
  - 2016: \$142 million
  - 2021: \$386 million
- FY20 ending cash balance was ~\$27 million less than anticipated
  - Overly complex financial structure resulted in a high error rate when billing State and Federal grants
  - Internal processes are cumbersome and have too many "hand offs"
  - Overall financial staffing is insufficient
  - Reimbursements/revenue issues: spending money on grants, but not collecting the revenue (cash) to pay in a timely manner
  - Monthly "closing of the books" and account reconciliations are complicated by agency invoice challenges

# Prior Actions

Timeline	Actions
Nov 2018	CBO staff assessed HSD finance & accounting procedures
2019	HSD began implementing actions
Feb 2020	HSD hired a Chief Financial Officer
April 2020	HSD partnered with CPA firm, Francis & Company
Aug 2020	HSD launched internal improvement initiatives
July 2021	FAS hired Alvarez and Marsal (A&M)
Sept 2021	A&M created Operational & Financial Improvement Plan



# Operational & Financial Improvement Plan

HSD, City Budget Office, City Wide Accounting, and consultant Alvarez & Marsal (A&M) partnered and developed a detailed plan to focus on several functional areas to improve financial operations focusing on:

- Improve timeliness and accuracy of billing of Federal and State Funds
- Simplify PeopleSoft 9.2 Financial Structure beginning in FY22
- Adopt streamline processes for financial processes
- Implement dashboard metrics to provide accurate financial information
- Revise the approach for the CMS to CCMS transition in FY 22
- Increase staffing capacity to meet business needs, and restructure financial operations to provide more centralized management
- Train staff on new processes

# Highlighted Improvement Areas

# #1 - Accounts Receivables

**Issue:** *Inability to bill the State and Federal funds accurately and timely*

- This area was the largest singular contributor to HSD's cash position
- State billings were experiencing a high error rate, resulting in a high rejection rate

## **Desired Outcomes:**

- Streamline and standardize business processes and define responsibilities
- Centralize billing responsibility to ensure accuracy and timeliness
- Increase staffing in Accounts Receivable
- Utilize standard accounting reporting and implement cash forecasting

## #2 - Accounts Payables

**Issue:** *Inability to accurately record monthly expenses makes forecasting financial status difficult and creates delays in closing the financial system at year end*

- HSD has historically reported over 70% of its costs into the financial system during the 4<sup>th</sup> quarter of the fiscal year
- The preponderance of agencies invoices are not recorded until the 4<sup>th</sup> quarter which prevents accurate financial reporting and closing the fiscal year

### **Desired Outcomes:**

- Centralize invoice receiving to monitor agency billing and payment
- Adhere to the payment terms of the contract
- Increase staffing in Accounts Payables and ensure segregation of duties
- Identify root cause of delayed billings from agencies



# #3 – Procurement of Goods & Services

**Issue:** *Purchasing of goods and services is decentralized and fragmented; No standardization or centralization of purchasing (e.g, credit cards) exist which creates internal control risks, inconsistent procurement approaches, and incomplete record-keeping*

## **Desired Outcomes:**

- Create HSD Procurement operating model
- Develop new procurement workflow processes, policies and procedures
- Provides a separation of duties for establishing contract encumbrances in the financial system and payment

# #4 - Accounting and Payroll

**Issue:** *An incorrect financial structure is frustrating monthly closings and has resulted in multiple audit findings*

*Labor recording is often incorrect and needs to be manually corrected which results in losing the original transactional information which is an audit concern*

## **Desired Outcomes:**

- Ensure transactions are recorded accurately to eliminate General Ledger and subledger misalignment
- Implement general accounting internal controls
- Implement payroll processing internal controls to ensure payroll transactions are coded to proper project and activities
- Streamline project activity structure

# #5 - Budget and Financial Planning

**Issue:** *Lack of role clarity and rework is contributing to gaps in critical budgeting responsibilities*

*Divisions, accounting, and budget roles are not clearly understood and results in multiple manual financial adjustments which frustrates accurate reporting of funding availability*

## **Desired Outcomes:**

- Add a Budget Manager to specifically oversee use of General Fund resources
- Having two first level Budget Managers will allow the Budget Manager to focus on HSD budget planning and be “forward looking”
- Senior Financial Analyst will monitor all revenue and expenses for improved accuracy in financial reporting and variance explanation rather than billing

# #6 - Organizational Structure

**Issue:** *Current structure does not have the capacity to handle the increased budget growth, lacks segregation of duties, and does not have appropriate oversight.*

## **Desired Outcomes:**

- Expand Accounts Receivable (AR) Billing & Cash Collections Unit within Accounting Services unit dedicated to billings and cash collection
- Centralize budget, planning and reporting functions within the Financial Team
- Create new centralized HSD Shared Services Procurement Unit
- Transition invoice receipting and PS 9.2 data entry from HSD Division Grant & Contract Specialist (G&C) to Accounting Accounts Payable

# Project Status Update

Workstream		Reporting Week: 11/29 – 12/3		ON TRACK	DELAYED
Accounts Receivable	ON TRACK	Centralize AR Billings		9 of 21 tasks	1 of 21 tasks
	AT RISK	Streamline AR Billing Process			
	AT RISK	Develop a Monitoring Program m and accounting for Write Off's		AT RISK: 5 of 21 tasks	FUTURE START 6 of 21 tasks
	FUTURE START	Deploy PS 9.2 Training Program			
	FUTURE START	Update PS 9.2 user access security profile			
Accounts Payables	ON TRACK	Centralize Invoice Intake Process			
	AT RISK	Segregation of Duties – Procure-to-Pay			
	ON TRACK	Enforce Contract Payment Terms & Billing Frequency			
	ON TRACK	Procurement Cards - Establish Financial Controls & Process Schedule			
	ON TRACK	Update PS 9.2 user access security profile			
Payroll and General Accounting	ON TRACK	Create processes and procedures that adhere to Citywide policies			
	ON TRACK	Ensure transactions are recorded at the source module to eliminate GL and subledger misalignment			
	DELAYED	Implement general accounting controls and executing year end's close			
	FUTURE START	Implement payroll processing internal controls to ensure payroll transactions are coded to proper project and activities			
	ON TRACK	Create Financial Transition Plan for transfer of Operations of Homeless related funding programs to KCRHA			
Procurement	AT RISK	Centralize Procurement			
	FUTURE START	Update PS 9.2 user access security profile			
Budget & Financial Planning	FUTURE START	Create shared services Budget & Financial Planning Unit			
	ON TRACK	Monitor All Revenues and Expenses			
	AT RISK	Processes for Annual Budget Planning and Execution			
	FUTURE START	Update PS 9.2 user access security profile			



# Questions

