



BY PERRY JAMES

From Control to Collaboration

...Finance Shifts Its Focus

Everyone would likely agree that the most successful organizations are those that see change coming and respond in ways that meet the needs and the desires of their customers. A recent example can be seen in the fast food industry. Many customers' fast-food consumption patterns were set when the first chain restaurant saw the public demand for electronic payment and put VISA, MasterCard, or other logos on its doors and drive-through windows.

While government finance offices have a different mission than do fast food restaurants, public sector organizations face many of the same challenges as firms operating in the competitive marketplace. The role of finance in achieving a public mission continues to evolve as the need for quick, accurate, and relevant financial data becomes a prerequisite for good decisions. The dilemma faced by finance professionals is how to be that type of responsive, continuously improving force while also staying on top of the compliance and control-oriented rules that have long characterized public financial management's objectives.

This article will compare a finance office whose traditional focus has been on transactional operations with the newer finance office that emphasizes decision-support capabilities. Through contrasting these approaches, the article will examine changes that a finance office has to consciously consider as it bridges the roles of control and collaboration to be successful in meeting the evolving objectives of public sector organizations they serve.

THE WAY WE WERE

To help understand how the traditional finance office is evolving in response to new decision-support needs, it helps to look at some of the roles that are now changing. The characteristics described below reflect the traditional finance office, which did a good job in meeting largely transactional objectives but did not have the ability to respond to rapidly expanding decision needs within the organization.

Fiscal Police

Over the years, many of our stakeholders saw the finance office as the "fiscal police" because of the emphasis on complying with financial rules and regulations. The rules often

had negative tones to them, including references to what one could or could not do. As a result, it is not surprising that finance office personnel were trained in how to prevent those exceptions, typically returning paperwork that did not comply with the stated rules. In my own unit of government, as an example, employees at one point were equipped with pre-printed check-off lists of reasons for rejecting documents sent to the accounting office. The lists were attached to any documents having errors and returned to the originating department for correction and resubmittal. Clearly, as we look back at that "return to sender" style, we see that it had negative implications for other roles of the department.

Information Custodian

As with anyone entrusted with something valuable, our finance office personnel often were trained that the finance office was the expert in dealing with the organization's financial information and, therefore, information was not to be shared indiscriminately. As a result, financial reports were run only at set times of the month, were sent to personnel in other parts of the organization only on a limited basis, and provided little explanation. Concepts like fund balance, budget variances, and accrual accounting were understood by only a few higher level managers, even in the finance office.

Holder of the Purse Strings

Because the finance office was the information custodian, it followed that it also was typically the area in the organization that could tell you what money, if any, was available to fund things. If you needed money for something, you knew to call the finance office for assistance. Probably our best kept secret was always "reserves." Bookkeeping wizardry usually allowed them to be well hidden from all but the most astute accounting minds. At the appropriate times, but usually infrequently, the purse strings were loosened to allow the organization to use reserves on specific unforeseen needs that arose. You might call that the "white horse" syndrome.

Structured Processing

Without question, the finance office had to have structured processes in place to allow transactions to be scrutinized for compliance with financial rules and regulations and, after

At no time before has there been both a need and the opportunity for the government finance organization to transform its structure and performance.

Exhibit I: Finance’s Evolving Roles

Traditional Role	Evolving Role
Fiscal Police	Fiscal Facilitator
Information Custodian	Information Provider
Holder of the Purse Strings	Partner in Allocating Fiscal Resources
Structured Processing	Evolving Processes
Control over Financial Transaction	Overseer of Distributed Financial Transactions
Internal Risk Assessment	Enhanced Risk Management Assessment
Limited Role in Economic Development	Integral Part of Economic Development

being deemed adequate, to be processed. Employees working in our offices quickly learned the importance of the transactions and took their jobs seriously. Partly because of system limitations and partly due to the disciplined nature of the processes, there typically wasn’t a great deal of flexibility. That worked well for obtaining consistency of results but not so well for dealing with things that did not fit traditional processing rules. Unfortunately, a common answer to the question of “why can’t I do something a certain way” was the answer “we’ve always done it this way.”

Control over Financial Transactions Unit-Wide

In many jurisdictions, just as in mine, there are state laws that legally set the powers and duties of finance officers in key functions such as receipting and depositing moneys, investing idle funds, making disbursements, managing debt, and maintaining central records. It is logical that our finance offices set up systems and processes to centralize these functions under the control of the finance office as much as possible. In cases where this was not practical, other departments and agencies were given explicit rules on transmitting details through the finance office to provide a final control over what was processed. The desires of customers and departments to allow credit and debit cards for payments has been one of the most difficult issues. The traditional finance office wanted to please customers but saw many risks and costs associated with this new function. Perhaps the largest concern was the fact that credit card usage was typically a part of stand-alone decentralized systems in other operating departments and not located within a central control function. It’s no surprise that this lack of central finance control made the evolution to electronic processing a challenging and somewhat slow effort.

Internal Risk Assessment

Risk assessment in our traditional finance office was always a more task-oriented process that involved appraisals of property and management of risk through insurance or self-funded

risk management funds. The finance role typically was to deal with various lines of risks, such as workers’ compensation and property and liability occurrences. The concept of enterprise risks and the involvement of the finance office in regularly assessing and managing higher level risks to the whole organization was not a role that we traditionally performed.

Limited Role in Economic Development

If ever there was a true “silent partner” in economic development pursuits of our jurisdiction, the finance office was it. Because our finance office was more involved with the transactions of our organization, we often saw parts of the projects when real estate got sold or purchased or if there was a need for us to help with identifying available funds or in borrowing money. Other than that, the planning department and real estate sections usually handled key elements of development deals, such as analyzing alternatives and negotiating with prospective parties. Ironically, we saw results of economic development work done by consultants that our staff could have done, but given our transaction workload, we reasoned that it probably was just as well that we were not performing those tasks.

THE NEW FINANCE OFFICE EVOLVES

A slight fast forward takes us to the 2006 version of our finance office and, yes, things have changed from our well-grounded, traditional finance office of the past. The current times are requiring quite a shift of roles from those engrained in us by the long-standing practices of our transaction-focused office. Compare the characteristics described in Exhibit 1 with the corresponding but evolving ones associated with the roles that now support decision making in our organizations.

Fiscal Facilitator

Through conscious change on our part, our new finance office has found that we can achieve even better financial

controls when we facilitate building in quality expectations enterprise-wide. This effort requires collaboration among all areas of the organization to incorporate quality in each process from the beginning rather than relying on the finance staff to check each transaction at the end. The shift from being viewed as an enforcement office to a support service in which our message is “we’re here to help you do your job better” sets the stage for all other evolving characteristics within the new finance office.

Information Provider

Good decision making throughout the organization must be based on good financial information. Our new finance office mindset is that fiscal data is transparent and should be accessible by anyone needing it. Computer technology allows data to be accessed, but not altered, so we make it available to virtually anyone at any time. Knowing that some financial data is still difficult to understand, we offer regular training on using and understanding the financial system and understanding the information it provides.

Partner in Allocating Fiscal Resources

Quite unlike our previous role of holding the purse strings for the organization, we now can use transparent fiscal data to allow all parties to share in fiscal reviews. We are brought in early to assist others in analyzing and evaluating fiscal options. Good decisions almost always come from this team approach. The finance office, rather than being focused simply on finding available resources, can now dedicate resources to higher level financial review and consultation to support the organization’s decision efforts.

Evolving Processes

Our external and internal customers now expect our finance office to have efficient systems that process transactions in real time, providing them instantaneous information for decision making, just as we expect other businesses to do for us. The less responsive systems and processes of our prior transaction-focused office have largely been replaced by integrated systems. These newer systems are regularly upgraded, giving us the added benefit of ongoing advancements. Continuous improvement has become our byline. A sign of this evolution is that we both hire and assign persons in our office based on their ability to combine financial, technology, and project management skills.

Overseer of Distributed Financial Transactions

Central control over all financial functions of the rapidly growing number of systems throughout our organizations is no longer practical. Our new finance office, however, has solved that by refocusing its efforts on ensuring that these new systems have all of the right financial components built into them before they go live. These components include integration features for new systems with central financial applications like cash receipting and the general ledger, strong internal controls and procedures for regular reconciliation to banking activity. This new role for finance requires a collaborative attitude that combines necessary compliance verifications with the empowering areas outside the finance office to work within sound fiscal frameworks that we have helped facilitate. Our finance office finds that departments typically feel that this attitude from finance is progressive and helpful to their operational objectives. This is probably one of the most critical areas of change that finance faces in this electronic era. More than ever before, finance must coordinate assistance and oversight within its own organizational structure.

Enhanced Risk Management Assessment

In contrast with the previous focus on insuring risks mostly associated with recurring work areas such as workers’ com-



pensation and property and liability claims, our new office has a totally new role in risk management. It is now a team member with all departments in regularly assessing a wide variety of risks, providing tracking and accountability of performance, and in finding best ways to manage risk. Today's risks include new areas such as terrorism threats, continuing operations, environmental issues, technology security, and weather preparedness. Rather than being responsible simply for insuring and processing risk transactions, the finance office finds itself as a desired strategic partner that helps identify potential risk, provides insight into financial implications, and assists in standardizing policies and procedures to best manage the entire enterprise's risk environment.

Integral Part of Economic Development Activities

Public sector organizations generally look at economic development as critical to the health of our communities as well as to the long-term financial viability of the government. In this pursuit, the evolving finance office has moved beyond being a silent partner and has established itself as a critical team member, providing decision support through financial analysis, scenario modeling, and development of funding options. No longer are we the office that is called just to help find money or do the accounting for an economic development project. Instead, we have evolved to be the office that helps make sure that we do the smartest projects with the largest positive impact to our organizations. Our staffs are fulfilled by being used in an internal consulting role that adds value to the decisions being made.

MAKING IT HAPPEN

The shift from the transaction-based finance office to a finance office that provides decision support has evolved differently in every organization. That is natural. However, if we accept the basic premise of this change, we can identify certain common denominators:

- 1. The change is not an accident.** It takes leadership. This leadership will not only help determine new attitudes but will help change the culture itself to support the change over the long term.
- 2. Strategies for change must balance the objectives of stability and agility.** A 2005 IBM Institute for Business Value study explained these objectives:
 - A stable environment is critical to providing adequate controls and minimizing downside risk

- An enterprise must be agile in order to identify and capitalize on emerging upside opportunities for decision makers while understanding the calculated risks

- 3. Teamwork is critical.** The collaborative finance office must exhibit teamwork not only as it works with other parts of the organization but, even more importantly, within its own office structure.
- 4. New means of assuring compliance with fiscal requirements are needed.** If an office is to move from its detailed transactional focus, it must find new, effective ways to review compliance that are consistent with its evolved function. Examples include new fiscal compliance sections that help with up-front quality controls, use of internal auditing resources, and overall reconciliation efforts.
- 5. Effective and efficient technology must be used.** Ongoing technology investments are essential in creating an organizational infrastructure that can provide the financial information to support the organization's operational needs and decisions.
- 6. Quality, quality, quality.** Quality assurance starts with strategic planning and front-end involvement in setting key quality control checks early in financial processes. The finance office is integral to this effort; however, it is an effort belonging to the entire organization. It will pay major dividends by producing successes on a consistent basis.

SUMMARY

At no time before has there been both the need and the opportunity for the government finance organization to transform its structure and performance. While central control structures and operations worked well to address compliance issues and to process organization-wide transactions, the new finance office is challenged to contribute in more collaborative ways to the important decisions of the organization. Evolving the structure to balance its needs for stable financial operations with the agility to support high-level decisions must be our goal. As we have learned from other experiences, change takes leadership and perseverance. It is a journey with a tremendous upside for us and for our organizations. ■

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