

4. Management of the Accounting Unit

- **The role of management is to effectively motivate and deploy an organization's resources, including the most important resource - its staff. Additionally, the Public Utilities Commission's management should bring expertise and experience to the role as well as leadership. In all of these areas, management of its Accounting Unit has failed.**
- **Weaknesses in the accounting processes and unclear lines of responsibility and accountability have been documented by the Controller, expressed by the Public Utilities Commission's independent financial auditors, and articulated by the Public Utilities Commission's own staff. Interviews indicated that there were unclear expectations (a) as to what the Financial Services Section expected from division and bureau staff and (b) as to what division and bureau staff expected from the Financial Services Section. There is a strong need for a clear delineation and assignment of finance and administrative functions between the Financial Services Section and operations divisions and bureaus, as well as within the various operations divisions and administrative bureaus. These weaknesses stem from a lack of leadership in the Accounting Unit and the failure to implement basic management tools and programs.**
- **First, the Financial Services Section policies and procedures manual is not complete, comprehensive or standardized. Additionally, there are no formalized performance measures for any of the functional areas that are tracked and monitored. Finally, staff development is lacking with performance evaluations not being conducted timely and no training program having been established despite the findings made by the Controller and the independent financial auditor.**
- **The Public Utilities Commission has had difficulty in hiring and retaining highly qualified management staff which oversee the Accounting Unit. In fact, management staffing difficulties run all the way up and down the management chain, including the Deputy Director of Business Services, the Director of Financial Services, the Director of Accounting, and three line Accounting Manager positions. All of these positions earn salaries in excess of \$100,000 annually. The Budget Analyst recommends the elimination of one of the three Accounting Manager positions, at an annual salary and benefit cost of \$134,517, because (a) the Accounting Unit activities are of limited scope, (b) the Director of Accounting and the two other Accounting Managers bring professional level and management skills to the Accounting Unit, and (c) the third Accounting Manager position has never been filled.**

- **The General Manager must recognize the accounting function as a critical element to the successful operations of the organization and should take all necessary steps to fill these remaining management positions with technically qualified, highly-skilled, permanent staff. Once these positions are filled, management can then develop and implement the basic management tools and programs noted above.**

Role of the Accounting Unit

The Accounting Unit serves two primary functions: to control disbursements for accuracy and timeliness and to maintain accurate, complete and timely financial records. While the primary Accounting Unit responsibilities are split along two lines, the Unit is divided into three areas: Accounting Operations, Capital Projects and Asset Management, and General Ledger and Financial Reporting.

Accounting Operations is primarily responsible for disbursements, including the verification of sufficient funding for purchases and the authorization for payment. The area also has a small staff to process cash receipts other than the water and sewer monthly billings, such as rental and lease payments received from Public Utilities Commission properties. However, this activity is being transferred to the Customer Services Section which processes monthly billings.

Capital Projects and Asset Management is responsible for processing disbursements related to capital projects and maintaining fixed asset accounting records used for financial reporting purposes. To this end, the area works closely with project managers to assist them in monitoring projects.

Finally, the General Ledger and Financial Reporting area is responsible for producing the annual financial statements as well as, on an on-going basis, processing General Ledger and other non-cash transactions.

Accounting Processes

There are no established performance measurements for the Accounting Unit other than an informal benchmark of processing transactions within three to four business days. However, this metric is not formally documented, tracked and monitored. Thus, it is difficult for management to determine whether the Unit and its three functional areas are performing efficiently and effectively.

As noted in Section 3 of this report, the independent financial auditors provide management letters when weaknesses in internal controls are identified. The management letter for FY 2002-2003, issued March 25, 2004, identified significant issues, several of which were also findings in the previous year. The findings included poor internal communications, insufficient experience and skill level on the part of accounting staff, lack of documentation, and lack of analysis and management review. While no

management letter was issued for FY 2003-2004, there have clearly been problems in the Accounting Unit in the recent past. The Controller's Office has conducted a more recent evaluation of the Accounting Unit in its routine post audit process.

Controller's Office Post Audit Findings

The Controller conducts annual audits of departmental financial transactions, called "post audits," to determine compliance with the City's own policies and procedures. These policies and procedures are in effect to ensure proper internal controls are maintained over financial activities. The latest Post Audit conducted by the Controller's Office was conducted for the period April through December of 2003 and covered the three Public Utilities Commission Enterprises as well as the Public Utilities Commission Administrative Bureaus. The post audit evaluates accounting and purchasing transactions in the following areas:

- Proper authorization
- Processing errors or exceptions
- Adequate supporting documentation
- Timing issues
- Compliance issues

The latest Controller's report, issued October 5, 2004 found significant exceptions related to proper authorization and timing issues, and to a lesser extent, adequate supporting documentation and processing errors. Compliance did not appear to be an area of specific concern. Table 4.1 below summarizes the specific repetitive findings by area, but does not include all findings in the Controller's report.

Table 4.1
Controller's Office Post Audit Findings
April through December of 2003

Enterprise	Area	Finding	Count	Amount
PUC Admin	Auth.	No purchase order / contract / encumbrance / invoice	24	\$402,272
Water	Auth.	No purchase order / contract / encumbrance / invoice	16	524,351
Hetch Hetchy	Auth.	No purchase order / contract / encumbrance / invoice	7	17,004
Clean Water	Auth.	No purchase order / contract / encumbrance / invoice	3	4,593
Water	Auth.	Paid from copy of invoice without certification	10	131,810
			<u>60</u>	
Water	Process	Notepad and/or document reference field not used appropriately	7	3,934,563
Water	Process	Missing or incorrect data format	4	47,463
			<u>11</u>	
Hetch Hetchy	Sup Doc.	Lack of or incomplete original and/or supporting doc.	4	11,207,506
Clean Water	Sup Doc.	Lack of or incomplete original and/or supporting doc.	2	345,355
Water	Sup Doc.	Lack of or incomplete documentation of receipt	3	84,636
			<u>9</u>	
Clean Water	Timing	Untimely payment and/or procurement	10	21,380
PUC Admin	Timing	Untimely payment and/or procurement	6	306,307
Water	Timing	Untimely payment and/or procurement	4	82,748
			<u>20</u>	
Hetch Hetchy	Comp.	Prop Q/3 bids/quotation/allowable items requirements not followed	4	17,298

To address these issues, the Controller recommended continuous training on the accounting and procurement process, a strengthened review and approval process, ensuring vendors are paid timely, paying from original invoices only, and an improved record filing process.

The Controller's report stated "Due to the volume and significance of our findings, we require your response as well as your corrective plan of action within 30 days to ensure

that these errors do not reoccur." The Public Utilities Commission filed a corrective action plan with the Controller's Office stating that the Accounting Unit had issued accounting guidelines (discussed below) and meets regularly with other finance and administrative staff in the operating divisions and administrative bureaus. Further, the response noted that accounts payable staff meet biweekly to discuss internal processing issues and that internal filing procedures had been developed and will be implemented.

Whether these actions have resolved the process and performance issues identified by the Controller is not known at this time. The latest post audit of January through March of 2005 has not yet been completed. However, discussions with finance and administrative staff in the operating divisions and administrative bureaus as discussed below indicate that some of these issues may persist. The Accounting Unit should formally develop performance measures for each functional area: Accounting Operations, Capital Projects and Asset Management, and General Ledger and Financial Reporting, and track and monitor performance on a regular basis.

Purchasing

Based on discussions with staff in the three Enterprises and various administrative bureaus, discussions with Purchasing staff, a review of the Public Utilities Commission's internal BizServ Customer Survey, and several select email chains trying to resolve purchasing problems, the purchasing process is not meeting the needs of its clients. Public Utilities Commission staff have expressed much frustration over delays and lack of customer service in this area. Indeed, many of the post audit findings pertained to transactions not having a purchase order. In fact, the BizServ Customer Survey gave low marks to the purchasing process in the fall of 2002. On a scale of 1 to 5, with 1 being poor and 5 being excellent, 45 percent of the respondents rated the purchasing process as a 1 or a 2, whereas only 23 percent of the respondents rated the purchasing process as a 4 or a 5.

While there are certainly Citywide issues that impair performance, the Public Utilities Commission has not directly addressed performance issues with the Department of Administrative Services and the Purchasing Division, nor has it addressed performance issues internally by developing tools to measure and monitor purchasing activities. While the Financial Services Section commissioned an analysis of the purchasing and payment process in 2003, a final report was never produced and nothing was developed in terms of identifying and implementing improvements.

The Financial Services Director needs to formally establish an improvement program. The Director should convene a small working group of Financial Services Section and operations and bureau staff to identify the extent of the problem, develop benchmarks for measuring and monitoring performance, and work with the Purchasing Division of the Administrative Services Department to resolve performance issues and process weaknesses.

Decentralization of the Accounting Function

The Budget Analyst conducted interviews with 14 finance and administrative staff in the various Department divisions and bureaus to obtain an understanding of the level of collaboration between the Public Utilities Commission Financial Services Section and operations and to identify specific challenges with which these staff may contend. In developing the list of interviewees, it was clear that there was no clear protocol with respect to assignment of finance and administrative activities in the various divisions and bureaus and the point of contact was not always certain. The assignment was especially diffuse within the administrative bureaus. The functions were assigned to staff that ranged from a secretary position, earning approximately \$62,270 annually at the top step to a manager position, earning approximately \$109,356 annually, at the top step. However, the higher classifications assumed more administrative functions, such as accounting, budget and human resource activities, and more responsibilities, while the lower classifications typically handled one or two but not all of these functions. Typically, the finance and administrative staff were classified as 1824 Principal Administrative Analysts, which are compensated at \$90,220 annually at the top step.

The interviews indicated that the finance and administrative staff within the various operations divisions and administrative bureaus had significantly varying impressions of the efficiency and effectiveness of the Financial Services Section. Interviews also indicated that there were unclear expectations - unclear as to what the Financial Services Section expected from division and bureau staff and unclear as to what division and bureau staff expected from the Financial Services Section.

An internal email chain reviewed by the Budget Analyst is emblematic of the confused relationship. The email chain began with a request to update a blanket purchase order and quickly spiraled into nine emails back and forth between five people to determine the responsible party. The level of frustration was evident and the final email ended with the administrative staff listing all accounting and purchasing tasks they were already assigned.

Another indication that the Financial Services Section is not meeting the needs of its clients is that the Infrastructure Division has developed its own training program to assist its own staff in complying with accounting policies and procedures.

There is a strong need for a clear delineation and assignment of finance and administrative functions between the Financial Services Section and operations divisions and bureaus, as well as within the various operations divisions and administrative bureaus. The Financial Services Section does have a policies and procedures manual with a significant number of policies and procedures that address specific topic areas. However, the manual is dated, citing a Financial Services Director that left Department employment December of 2003 as well as having policies dating back to 1996. Further, the manual is neither complete, referring to a number of policies in draft form, nor comprehensive and standardized, with separate policies and procedures for Clean Water Enterprise accounting transactions and contract procedures, but not for the other

Enterprises, which are covered under more generalized policies and procedures. As cited by the Accounting Unit in its response to the Controller's post audit, new accounting guidelines were recently drafted and issued to all operations division and administrative bureau staff through the Public Utilities Commission's intranet. However, these guidelines cover specific City accounting policies, are not exhaustive, and do not provide detailed accounting procedures. Instead, the guidelines refer back to procedures included in the policies and procedures manual discussed above.

Additionally, the Accounting Unit has met with specific division and bureau staff to discuss and resolve outstanding purchasing and accounts payable issues. However, these meetings are not routinely scheduled and have not occurred with all finance and administrative staff in the operations divisions and administrative bureaus. Based on the feedback received from division and bureau staff discussed above, it appears that these meetings are not sufficient to address some of the more inherent problems encountered.

First, the Financial Services Section should update and complete the policies and procedures manual, including clear lines of responsibility among the various parties. Then, a reorganization or reassignment of finance and administrative functions in the Enterprises and in the administrative bureaus should be conducted if appropriate in order to ensure that procedures, including processing, authorization and oversight are occurring at the appropriate levels and that accountability is clearly assigned. Finally, the Director of Accounting should develop and conduct an on-going training program, starting with the release of the revised policies and procedures manual. Instead of going out to operations divisions and administrative bureaus, the Accounting Unit should conduct periodic training for all operations divisions and administrative bureau staff together to ensure that the training is standardized and provided to all finance and administrative staff.

The Role of Management

The role of management is to effectively motivate and deploy an organization's resources, including the most important resource - its staff. Additionally, management should bring expertise and experience to the role as well as leadership. In all of these areas, management of the Accounting Unit has failed.

Staff Development

The independent financial auditors, the Controller's Office and interviews with staff within the Financial Services Section have noted a need for staff development in the Accounting Unit. While Accounting staff may receive basic training on the Controller's financial systems, little other training has been provided. Further, there is no formalized goal setting or performance measurements for individual staff.

Additionally, a review of the timing of employee performance evaluations found that, while all Accounting staff received evaluations in the summer of 2004 as a result of a mandate called by the new General Manager, prior employee performance evaluations

were erratic and frequently did not meet the Public Utilities Commission's policy of annual evaluations as well as more frequent evaluations during probationary periods.

The Accounting Unit should conduct employee performance evaluations in compliance with the timelines established by the Public Utilities Commission's own policies and procedures. The 2005 employee evaluation process should include documented goal setting for each employee as well as a training needs assessment and a plan for obtaining such training. Further, the training needs assessment and plan should be coordinated, tracked and monitored throughout the year by the Accounting Managers to ensure that staff are receiving the required training.

Absence of Management Accountability and Leadership

The Public Utilities Commission has had difficulty in hiring and retaining highly qualified management staff which oversee the Accounting Unit. In fact, management staffing difficulties run all the way up and down the management chain - from the Deputy Director of Business Services to the three line Accounting Managers. There have been three Deputy Directors of Business Services since July of 2003, with the latest incumbent in an acting capacity since March of 2005. There have been three Directors of Financial Services since July of 2003, again with the latest incumbent serving in an acting capacity since March of 2005. The Director of Accounting positions has been vacant since April of 2004 and filled in an acting capacity - first by the Budget Director and at present by an Accounting Manager. Between these two acting assignments, a Director of Accounting was actually hired, but the individual remained in the position for only seven weeks before resigning. Of the three Accounting Manager positions in the budget, there has been very little stability. In Accounting Operations, there had not been a permanent Accounting Manager since December of 2003. An Accounting Manager was hired into this area in January of 2005, but the individual remained in the position for only two months before resigning. There has been no replacement. In the General Ledger and Financial Reporting area, the position has been filled in an acting capacity since it was created in FY 2003-2004 and is at present vacant. In the Capital Projects and Asset Management area, the Accounting Manager position was vacant from June of 2004 to December of 2004, when an individual was hired. However, that individual is now acting as Director of Accounting and the Accounting Manager position in this area is vacant. At no time has all three Accounting Manager positions been filled.

Further, given the extent of the independent auditor management letter findings in prior years, the Controller's post audit findings, and comments by individual staff at the Public Utilities Commission, it appears that there may have either been technical competence and/or poor interpersonal and communication skills on the part of management prior to the turnover and vacancy issues noted above.

Thus, there has been weak financial management and leadership for sometime in and over the Accounting Unit. These weaknesses pervade and undermine employee morale and performance. Indeed, staff turnover in the Accounting Unit has increased dramatically in the last few years. The Public Utilities Commission's Human Resources

Division reports the following number of separated employees in the last six calendar years:

1999 - 1
2000 - 0
2001 - 3
2002 - 5
2003 - 4
2004 - 8

Steps should be taken immediately to fill vacant positions and positions where there are acting staff with technically qualified, permanent staff. These positions include the Deputy Director of Business Services, the Director of Financial Services, the Director of Accounting and two of the three Accounting Managers. There is no compelling reason to maintain the third Accounting Manager position given (a) the scope of activities in the Accounting Unit, (b) the professional level and management skills that the Director of Accounting and the two other Accounting Managers should bring to the Accounting Unit, and (c) the third Accounting Manager position has never been filled. This position reduction, classified as a 1675 Supervising Fiscal Officer, would result in an annual salaries and fringe benefit savings of \$134,517.

Management, once established, should focus on developing the mission, goals and objectives of the Accounting Unit. Further, this requires the translation of goals and objectives by functional area into tangible work plans, work product and staff assignments, which are documented in writing, and routinely tracked, monitored and evaluated.

Conclusions

Management of the Accounting Unit is responsible for formalizing, up-front, work expectations and for documenting performance against those expectations both for functional areas as well as for individual staff. These expectations and actual performance results, in turn, are linked to accountability of both management and staff. Yet, management of the Accounting Unit has failed to fulfill these basic responsibilities.

The Public Utilities Commission has had difficulty in hiring and retaining highly qualified management staff which oversee the Accounting Unit, and thus, there has been weak financial management and leadership for sometime in and over the Accounting Unit.

Recommendations

The Board of Supervisors should:

- 4.1 Eliminate one 1675 Supervising Fiscal Officer position for an annual salary and fringe benefit savings of \$134, 517.

The Public Utilities Commission General Manager should:

- 4.2 Take any and all steps necessary to fill the Assistant General Manager, Business Services, the Director of Financial Services, the Director of Accounting, and one Accounting Manager position with technically qualified, highly skilled, permanent staff.

The Director of Financial Services should:

- 4.3 Organize separate working groups to:
 - (a) Revise and update by June 30, 2006 the Financial Services Section policies and procedures manual and clearly define the roles and responsibilities of all staff relative to these procedures.
 - (b) Develop the mission, goals, objectives, work plans and performance measures for the Accounting Unit by December 31, 2005.
 - (c) Evaluate the extent of purchasing issues, develop benchmarks for measuring and monitoring performance, and work with the Purchasing Division of the Administrative Services Department to resolve performance issues and process weaknesses by March 31, 2006.
- 4.4 Direct the Director of Accounting, in coordination with the Accounting Managers, to:
 - (a) Conduct employee performance evaluations in a timely manner and in compliance with the Public Utilities Commission's policies and procedures.
 - (b) Develop a training needs assessment and a training plan for all staff in the Accounting Unit which is tracked and monitored throughout the year and incorporated into the employee performance evaluation process.
 - (c) Develop an on-going training program for operations division and administrative bureau finance and administrative staff on the Financial Services Section and City accounting and finance policies and procedures.
 - (d) Work with operations divisions and administrative bureaus to ensure that accounting and finance procedures are clearly assigned and are occurring at appropriate levels.

- 4.5 Report back to the Public Utilities Commission General Manager and Assistant General Manager, Business Services by September 30, December 31, March 31, and June 30 on the status of the recommendations and the progress made by the working groups and the Director of Accounting.

Costs and Benefits

These recommendations, which would enact basic, fundamental management responsibilities, should be implemented with existing resources. Benefits of the recommendations include improved performance of the Accounting Unit as well as of individual staff due to increased morale, improved skills, and clear lines of accountability. Additionally, \$134,517 in salary and fringe benefit savings would be achieved by elimination of one 1675 Supervising Fiscal Officer position.