Government Finance Officers Association

- 20,500+ Members (7,500 Governments)
- Offices in Chicago and Washington, DC
- Product and Services
  - Best Practices
  - Annual Conference
  - Publications
  - Training
  - Award Programs
  - Consulting
  - Research

http://www.gfoa.org/best-practices
GFOA Research and Consulting

Process Improvement  ERP Advisory Services  Risk-Based Reserve Analysis  Financial Policy Development

Research Reports

‘We’ve always done it this way’
Helping Find a Better Answer to those ‘Why?’ Questions

GFOA.ORG/CONSULTING

Mike Mucha
Director, Research and Consulting
What are the most significant challenges that finance officers face?
What Do You Think are the Top Challenges of Finance Officers?

1 MIN - SELF

2 MIN - PARTNER

www.gfoa.org/poll
What Do You Think are the Top Challenges Facing Finance Officers?
Top Finance Office Challenges

1. Cost of New Infrastructure
2. Pension Costs / Liabilities
3. Attracting Qualified Staff
4. Maintaining Existing Infrastructure
5. Healthcare Costs
6. Declining or Limited Revenue
7. Cyber Security
8. Staff Retirements
9. Technology (New Projects)
5-YEAR CAPITAL IMPROVEMENT PLAN (CIP)

- Identify Needs
- Determine Financial Impact
- Prioritize Capital Requests
- Develop Multi-Year Financial Plan

https://gfoa.org/multi-year-capital-planning
Does your organization have a 5+ year CIP that lists all needs?

Yes

No

Not Sure
• The Government Finance Officers Association (GFOA) recommends that state and local governments do not issue POBs
Pension Funding

Employer's Annual Required Contribution as a Percent of Payroll and Portion Paid, 2001-2018

Annual Required Contribution as percent of State and Local Own-Source Revenue, 2001-2017

https://publicplansdata.org/quick-facts/national/
ASSET MANAGEMENT

- GFOA recommends that local, state and provincial governments establish a system for assessing their capital assets and then appropriately plan and budget for any capital maintenance and replacement needs.

  - Developing policies to guide capital asset management practices that are supported by both finance and operational/engineering expertise. These policies should require a complete inventory and periodic measurement of the physical condition and existence of all capital assets.

  - Establishing condition/functional performance standards to be maintained for each type of capital assets.

  - Evaluating existing capital assets to determine if they still provide the most appropriate method to deliver services.

  - Consider developing financial policies that identify and dedicate fees or other revenue sources to help maintain the expected service levels of capital assets.

  - Allocating sufficient funds in the multi-year capital plan

https://gfoa.org/capital-asset-management
Basic S-Curve

Performance

Time
S-Curve Applied to Pavement

Pavement Life Cycle

- Very Good-Excellent
- Good
- Fair
- At Risk
- Poor
- Failed

PAVEMENT CONDITION vs. YEARS

- 75% of pavement life
- $1 for renovation here
- Will cost at least $5 here

Bay Area Average PCI

- 40% drop in quality
- 40% drop in quality
- 12% of life
S-Curve Applied to Pavement
Health Care Costs Account for a Growing Share of GDP

Source: Centers for Medicare and Medicaid Services
BUDGETING – WHAT IS A BUDGET?
Budgeting Links Many Critical Processes

- Community Priorities
- Long-Term Financial Plan
- Strategic Plan
- Budget
- Program Budget
- Results
- Budget Monitoring
- Performance Management
- Transparency
Implementation of Budgeting Best Practices

• Citizen Engagement
• Strategic Planning
• Long-Term Financial Planning
• Capital Planning
• Program Inventory
• Performance Management
• Transparency

Inputs → Activities → Outputs → Results

Performance

Programs

$\$
More than 70% of economists surveyed by the National Association for Business Economics said they think a recession will occur before the end of 2021.

https://gfoa.org/12-stage-financial-recovery-process
## Cost Cutting Strategies

### Treatments for Revenue

**Primary Treatments:**
- Audit Revenue Sources
- Improve Billing and Collections Procedures
- Explore Fees for Services
- Propose Taxes with a Strong Nexus
- Conduct Tax Lien Sale

**Treatments to Use with Caution:**
- Sell Assets
- Obtain Better Returns on Idle Cash

**Treatments to Use with Extreme Caution:**
- Levy a Broad Tax Increase
- Create Special Taxing Districts

### Treatments for Capital and Debt

**Primary Treatments:**
- Improve Capital Project Management
- Start Comprehensive Capital Project Planning
- Refinance Debt for Lower Interest Rate

**Treatments to Use with Caution:**
- Use Short-Term Debt to Pay for Vehicles
- Deferring and/or Canceling Capital Projects, Maintenance, and/or Replacement
- Use Debt to Fund Pay-Go Capital Projects
- Restructure Debt

**Treatments Not Advised:**
- Shift Operational Costs into Capital Budgets
Florida city agrees to pay $600,000 ransom after hack

Ransomware Strikes: The City Government of Baltimore Has Been Hacked

Five Hundred Schools Have Been Hit by Ransomware in 2019, Report Finds

Ransomware Attack Hits 22 Texas Towns, Authorities Say
The GFOA recommends that governments have policies and procedures and internal controls in place for each payment method and use electronic means to make payments as often as possible.

- ACH
- Wire
- P-Cards

https://www.gfoa.org/payments-made-governments
Vendor Fraud + Cyber Crime

1. Phishing email to vendor
2. Control vendor email
3. Change payment information at government using email

Electronic Vendor Fraud

BACKGROUND:
GFOA recommends that governments use electronic payments to improve efficiency, security, and tracking – but without appropriate internal controls, electronic payments are still at risk. Fraud can affect all sizes of governments and include both large and small transactions. As more governments move to electronic payments, electronic payment fraud has become more prevalent, and as protections have evolved to better guard against vendor fraud, fraudsters have gotten better at avoiding those measures. Vendor fraud is often associated with submitting fake documentation to change the bank routing and account numbers for electronic vendor payment deposits. These schemes often involve multiple hacks and may attempt to compromise vendor information, along with e-mail or other forms of identification, in an attempt to disguise the fraudulent activity. For example, fraudsters might hack e-mail or use a fake e-mail domain to make themselves look like legitimate representatives of a vendor.

RECOMMENDATION:
GFOA recommends that governments put safeguards and internal controls in place to mitigate the risk of fraudulent vendor payment activity.

Some strategies to help mitigate risk are listed below. No one strategy will stop all types of fraud, but implementing several strategies will help create a system of controls that better mitigates the risk of fraud. Additionally, GFOA recommends that governments review all control procedures to ensure that they are current and relevant to current threats.

General Strategies

https://www.gfoa.org/electronic-vendor-fraud
TECHNOLOGY PROCUREMENT

- Technology projects are often about more than technology
  - Ensure solid business case
  - Ensure proper internal support
- Develop strong requirements
  - Mitigate risk by tying payments to requirement completion
- Contract Protection / Risk Mitigation
  - Milestone payments
  - Fixed Fee
  - Service Level Agreements

You get what you pay for....
Procurement of Financial Services

• GFOA recommends that governments review their financial services contracts every five years and use a competitive process for the procurement of financial services.

https://gfoa.org/procurement-financial-services
Structure of “Traditional” Finance Function

- CEO
  - Budget
  - Strategy

- Treasurer
  - Investments
  - Revenue
  - Fund

- Controller
  - Financial Reporting
  - Accounts Payable
  - Payroll
  - Keep Score

- Procurement
  - Implement
70% of local governments put procurement under the finance director/CFO

- 75% of cities
- 50% of counties
Finance “Collaboration”
Tragedy of the Commons
Relationship to the Public Budget
FINANCIAL FOUNDATIONS FRAMEWORK

Pillar 1: Establish Long-Term Vision
Give people a reason to cooperate.

Pillar 2: Build Trust and Open Communication
Create the conditions for cooperation.

Pillar 3: Use Collective Decision Making
Develop forums for participation.

Pillar 4: Create Clear Rules
Reinforce constructive behavior.

Pillar 5: Treat Everyone Fairly
Promote and protect mutual trust and respect.
ESTABLISH LONG-TERM VISION

• People need to know how they can work together
• Goals
• Policies
• Principles
• Values

• Does your procurement manual answer....

WHY?

HOW?
BUILD TRUST AND OPEN COMMUNICATION

Engaged stakeholders

<table>
<thead>
<tr>
<th>Top 10 Fears of 2018</th>
<th>1998</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption of government officials</td>
<td>74%</td>
<td>63%</td>
</tr>
<tr>
<td>Pollution of oceans, rivers and lakes</td>
<td>62%</td>
<td>61%</td>
</tr>
<tr>
<td>Pollution of drinking water</td>
<td>61%</td>
<td>57%</td>
</tr>
<tr>
<td>Home buying becomes impossible for the middle class</td>
<td>57%</td>
<td>56%</td>
</tr>
<tr>
<td>People losing jobs</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>Extinction of plants and animals</td>
<td>54%</td>
<td>53%</td>
</tr>
<tr>
<td>Rural areas becoming more dangerous</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>Global warming &amp; climate change</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>High Medical Bills</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>Illness and death</td>
<td>53%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Federal Executive Branch | 63% | 42% |
Federal Legislative Branch | 61% | 40% |
Your state government | 80% | 63% |
Local Government | 77% | 71% |

Integrity

Clarity

Honesty

Fairness
COLLECTIVE DECISION MAKING

• When people participate in making decisions, the decisions will be better – and more likely to be successfully implemented.

• Evaluation committees…. How collaborative are decisions?
CREATE CLEAR RULES

• Boundaries are the rules of the game. The rules determine how the game is played. For everyone to win, the rules must be well-defined.

• When people feel their actions are seen & their reputations are on the line, people are encouraged to play by the rules.
TREAT EVERYONE FAIRLY

• Financial decisions are subject to dispute and misunderstanding
• People are willing to accept & support decisions that aren’t in their self-interest, if:
  • Decisions are based on accurate information.
  • Transparent & consistent decision-making criteria applied equally
  • Stakeholders given opportunity for input
  • Mistakes are recognized & corrected
Which Pillar is Most Important?

Establish Long-Term Vision

Build Trust and Open Communication

Use Collective Decision Making

Create Clear Rules

Treat Everyone Fairly
FINANCIAL FOUNDATIONS FRAMEWORK

Pillar 1: Establish Long-term Vision
- Give people a reason to cooperate.

Pillar 2: Build Trust and Open Communication
- Create the conditions for cooperation.

Pillar 3: Use Collective Decision Making
- Develop forums for participation.

Pillar 4: Create Clear Rules
- Reinforce constructive behavior.

Pillar 5: Treat Everyone Fairly
- Promote and protect mutual trust and respect.
How can you improve?

- What are some actions you can take to improve?
What can you do to improve?
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