



# City of CHARLOTTE

## MEMORANDUM

TO: Mayor Lewis and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Restructuring Finance Operations

DATE: April 6, 2018

I have advised Council that I thought it prudent, prior to filling the vacancy in the office of Finance Director/Treasurer, to evaluate opportunities for restructuring finance operations. I have considered two alternatives: 1) Advertising for and hiring a new Finance Director with the potential reassignment of a limited number of functions related to information technology to other departments and 2) Contracting for accounting services and reassigning a larger number of functions to other departments.

The report below provides details regarding my analysis and current conclusions about the direction that I think is most beneficial to the organization. The following summarizes those conclusions:

- The demand for finance directors in the public sector is high relative to supply. We might have difficulty in attracting and retaining a good candidate for the position;
- Limited staffing in the Finance Department leaves City operations vulnerable to disruption when staff vacancies occur;
- Contracting for professional accounting services with a reputable firm can address this vulnerability;
- If the City contracts for accounting services, remaining functions of the Finance Department will need to be reassigned to other departments in the organization;
- The City is unlikely to save money by contracting for accounting services but will gain flexibility and reliability that it currently lacks.

**Finance Department Structure.** The Finance Department, including responsibilities associated with the City Treasurer, comprises three positions: the Finance Director/Treasurer and two Account Customer Services Representatives. The latter two are hourly employees and members of the bargaining unit that includes clerical employees.

The following list identifies the primary functions associated with the department:

- Accounting activities, including payroll, general ledger, accounts payable and bank reconciliations;
- Management of property tax billing and collections including special assessments;
- Management of accounts receivable;
- Cash receipts;
- Cash management including investment of surplus funds;
- Budgeting and financial reporting;
- Utility billing including utility accounts management;
- Oversight of information technology including computers, networks, phone systems and cellular phones.

Some of these and other functions are performed in conjunction with staff assigned to other departments including the City Clerk's Office and the City Manager.

As currently structured, one of the two Account Customer Service Representatives devotes the majority of her time to utility billing and utility accounts management. The other is primarily involved with accounts payable functions and attending to citizens paying utility and tax bills and the like.

**Challenges Associated with Maintaining the Status Quo.** I have been advised by several individuals familiar with hiring individuals for top finance positions in the public sector that this is a particularly challenging time. There are currently six vacancies advertised on the Michigan Municipal Leagues website. Few candidates are actively seeking positions in municipalities, a function in part, I believe, of the relative lack of attractiveness of jobs in the public sector at this time. I have been advised that the best opportunity for filling the Finance Director vacancy will be through personal recruitment of individuals currently employed in similar positions in other sectors. To be most effective in such an effort, we will likely find it necessary to employ executive search services of the Michigan Municipal League or a private firm. The cost for such a search is likely to be in the range of \$15,000 to \$20,000. We might find that the salary we currently offer will be insufficient to attract a candidate of the caliber we desire.

Hiring a Finance Director, however, will not address the lack of reliability in the current structure of the Finance Department. In the past, the department has had a deputy treasurer who also had some accounting skills. We anticipate a vacancy in the near future in one of the Account Customer Services Representative positions. This position should be filled with a person with experience in bookkeeping or accounting. Although I would not expect as great a difficulty in recruiting for this position, our recent experience in filling vacancies has shown that few qualified candidates are available.

If we are successful in recruiting persons to fill these two positions, I fear that we will be faced with the need to recruit for these same positions every few years if

the supply of good candidates for public sector finance positions remains tight. It seems likely that a candidate who can be wooed away from a finance position in another organization can be wooed away from the City just as easily. Such a revolving door phenomenon would not address the need for stability in this critical function that I think is necessary.

If we are to maintain the status quo, I believe it is advisable to reassign responsibility for oversight of information technology functions from the Finance Department to the City Manager's Office. I do not know the history of the organization well enough to address why IT was incorporated within Finance. I suspect that at the time the decision was made, computer activities were a comparatively small part of overall systems and were primarily used for accounting functions. Much has changed over the years. This activity is a critical part of our operations warranting greater involvement from my office.

I have also noted some overlap in functions between the Finance Department and the City Clerk's Office in areas related to personnel, employee benefit programs and purchasing that need some attention. If we are to maintain the current department structure, I will be seeking to clarify roles and responsibilities in these areas.

**Contracting for Accounting Services.** As Council is aware, I moved to address accounting needs following the vacancy in the Finance Director position by engaging the firm of Rehmann Robson for payroll and general ledger functions. In considering some of the challenges outlined in the previous section, I decided to explore the potential for contracting for accounting services for the longer term. I have received a proposal from Rehmann Robson that serves to provide some initial impressions as to implications of such a move. I believe it is desirable to receive competing proposals as well before any final decision is made.

The primary services for which I would recommend contracting are payroll, accounts payable, general ledger and bank reconciliation. Given the way other functions are structured in our organization, it makes sense for us to manage utility billing, property taxes and cash receipts in-house.

I would not expect any significant cost savings by contracting for the services that I have identified above. The primary advantages in contracting will be found in the greater stability and reliability derived from a relationship with a larger firm with staff and organizational capabilities that we lack and could never obtain given our limited resources. By way of example, the loss of a key staff member in Finance is a significant disruption to work flow in the entire organization. The loss of an employee working for a private contractor and assigned to our account can be addressed efficiently by the contractor's drawing on other staff resources immediately available to the firm. In fact, if we were to contract for such services, we should only do so if the firm were of such a size that this continuity could be assured.

**Restructuring and Reassignment.** Although contracting for accounting services addresses a significant portion of the most critical functions of the Finance Department it does not address all those listed above. To address these other areas, I would propose the following:

- Eliminate the Finance Department but retain one employee who will have primary responsibility for utility billing, utility account management and some functions related to cash receipts, property taxes, accounts payable and other miscellaneous functions;
- Combine the positions of City Clerk and City Treasurer into a single position and assign the Clerk/Treasurer responsibility for all office operations including oversight of the cash receipting process. Section 6.1 of the City Charter permits such an action: “The Council may, by ordinance, upon the recommendation of the City Manager ... combine any administrative offices, in any manner not inconsistent with law...”;
- Assign primary responsibility for all aspects of budgeting, cash flow management, surplus cash investment and information technology to the City Manager.

The assignment of additional responsibilities to the Clerk/Treasurer position would warrant an increase in the salary for that position.

The reduction in staff and reassignment of responsibilities does create some vulnerabilities in certain areas. The staffing in the Clerk/Treasurer area should be sufficient to provide adequate back-up in the event of vacancies in any of the positions. Budgeting and cash management responsibilities assigned to the City Manager could, if a vacancy occurs in that position, be performed temporarily by contracting for those duties with the firm performing other accounting tasks or another firm that specializes in those functions.

#### **Other Issues.**

*Software Upgrades.* The software the City uses for payroll and general ledger is called Fund Balance. It is owned by Tyler Technologies which acquired Fund Balance and New World Systems. Fund Balance is an older software system that, while once popular among small Michigan municipalities, has largely been supplanted by products from BS&A. We currently use BS&A software for assessing, property taxes and building permits. Our IT consultant has advised that we should convert accounting from Fund Balance to BS&A to address changes Tyler Technologies will be making in the near future that he feels are not in our interests. If we were to contract for accounting services, we would still incur costs associated with converting to BS&A.

*Segregation of Accounting Duties.* The City’s auditors have advised Council each year as part of their report that the City’s small staff limits its ability to provide

optimum segregation of duties associated with accounting functions. Contracting for accounting services will address some of that challenge by assigning functions to persons outside the organization.

*Audit.* The performance of the annual audit is not addressed as part of this analysis. We have used the firm of Plante & Moran for this purpose for many years. Although Plante & Moran would be a good candidate to perform accounting services for the City, and the firm does perform that service for other Michigan municipalities, I would recommend that they not be considered for a contract. If we transition to contract accounting services, I think it is desirable to have a firm familiar with our organization involved in assuring the integrity of accounting systems as we go through the transition.

**Steps Forward.** There are a few actions that are necessary if Council supports the recommendation to contract for accounting services for the longer term. First, Council must amend the administrative plan, an ordinance that names the various City departments and the duties and responsibilities assigned to each. Second, Council must approve my appointment of a Clerk/Treasurer. Third, Council must award a contract for accounting services.

I would anticipate all actions being accomplished by the start of the next fiscal year on July 1. It is possible, however, that we would begin the transition of certain accounting functions prior to that date.

During Monday's Council meeting, this matters discussed in the memorandum will be the subject of a special presentation, providing Council members an opportunity to discuss this in detail and provide direction to me about your preferences for how we address finance functions for the City over the long term.

In preparing this report, I consulted with William Brickey of the firm of Plante & Moran whom many of you have seen the last several years during audit presentation. In addition, I discussed this matter during a recent staff meeting to solicit input from department heads. The majority of them expressed the view that changes I am proposing were workable but some uncertainty was also noted with regard to the potential for delays in receipt of information about financial matters and the implications for the staff team of the loss of a key position.

I do not believe that there is a single solution that will address all of the issues associated with timeliness of information, flexibility and reliability. In my opinion, the better alternative at this time, given the various challenges I have described, is to contract for accounting services and reorganize operations to address other issues.