

Strategic Benchmarking of the City of Houston Controller

Executive Guide to the Future

Sylvia R. Garcia, City Controller



Prepared by
McConnell Jones Lanier & Murphy LLP

December 2002



OFFICE OF THE CONTROLLER
CITY OF HOUSTON
TEXAS

SYLVIA R. GARCIA

December 30, 2002

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Office of the City Controller
Strategic Benchmarking of the City of Houston Controller
(Report No. 02-30)

Dear Mayor Brown:

In accordance with the City's contract with McConnell Jones Lanier & Murphy LLP (MJLM), MJLM has completed a benchmark study to determine how current Controller's Office functions compare to cities of similar size with an elected and non-elected controller. This comparative study was conducted to present a forward looking perspective of the future of the controller function. The objectives of this report included learning how other cities operate relative to the City of Houston Controller's Office; determining if there is an optimal role for the Controller's Office; establishing a pathway to excellence for municipal controller organizations; and identifying barriers and providing suggestions to reduce those barriers to the Controller's Office.

The report, attached for your review, identifies best practices and approaches used by ten cities that are comparable in size to the City of Houston. The audit team developed an electronic survey to gain insights that will provide a learning opportunity for the Controller's Office and the participating cities.

We appreciate the cooperation and high degree of professionalism of the MJLM's auditors during the course of the engagement.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sylvia R. Garcia".

Sylvia R. Garcia
City Controller

xc: City Council Members
Judy Gray Johnson, Chief Deputy City Controller
Albert Haines, Chief Administrative Officer
Stephen Tinnermon, Chief of Staff, Mayor's Office
Philip Scheps, Director, Finance and Administration Department



*Benchmarking Study Participating
Partner Cities*

City of Chicago
Chicago, Illinois

City of Dallas
Dallas, Texas

City of Detroit
Detroit, Michigan

City of Houston
Houston, Texas
(Sponsoring study)

City of New York
New York, New York

City of Philadelphia
Philadelphia, Pennsylvania

City of Phoenix
Phoenix, Arizona

City of Pittsburgh
Pittsburgh, Pennsylvania

City of San Antonio
San Antonio, Texas

City of San Francisco
San Francisco, California

City of St. Louis
St. Louis, Missouri



Acknowledgements

The Benchmarking Project Team extends a generous thank you to the participant cities who willingly shared their experiences and best practices with us. Special thanks to Judy Gray Johnson, Chief Deputy City Controller and Steve Schoonover, City Auditor from the City of Houston Controller's Office for their insights and knowledge.

BENCHMARKING PROJECT TEAM

ODYSSEUS LANIER, ENGAGEMENT PARTNER

LAFAYETTE HOWELL, PROJECT MANAGER

SHANNON WILLIAMS

MICHAEL WERTZ

MCCONNELL JONES LANIER & MURPHY LLP

HOUSTON, TEXAS



Table of Contents

Introduction	2
Purpose of the Benchmarking Study	2
Approach to the Benchmarking Study	2
Key Conclusions	2
Chapter 1 – Framework for the Report	3
Chapter 2 – Becoming a Business Partner	13
What is a Business Partner	13
Road to Business Partner	16
Chapter 3 – What we Learned: Conclusions	22
Appendix – Full Survey Results	25



Disclaimer about the Survey Data

Because of the limited number of survey respondents, it is critical to note that any correlations between the functions of the appointed and elected offices are not statistically significant. This means we cannot conclude from this data that the noted differences between the work performed by elected and appointed offices is directly attributable to their respective organizational structures.



Introduction

Today's managers of city controller organizations are responsible for both leading employees and responding to the needs of citizens in new and different ways. With the emergence of new technologies, most notably the Internet, opportunities to serve citizens and investors take on new meaning and provide different challenges for managers. Equally important in today's competitive environment for talent and increased accountability, it is vital to know what peer organizations are doing and learn from other experiences that may be different.

Purpose of the Benchmarking Study

This comparative benchmark study was conducted from April 2002 to December 2002 to capture and present a forward-looking perspective of the future of the controller function. The objectives of this report were to:

- Learn how other cities operate relative to the City of Houston Controller;
- Determine if there is an optimal role for the City of Houston Controller;
- Establish a pathway to excellence for municipal controller organizations;
- Identify barriers and provide suggestions to reduce those barriers to the City of Houston Controller.

Approach to the Benchmarking Study

The City of Houston Controller sponsored this benchmarking study. The study identifies best practices and approaches used by cities that are comparable in size to the city of Houston. There were 12 target cities identified for the survey, and 10 cities responded for an 83 percent response rate; the City of Houston Controller brings the total number to 11 survey participants. The project team, together with the City Controller, developed an electronic survey to gain the type of insights that would provide a learning opportunity for the City Controller.

Of the 11 cities responding, each possesses different characteristics that make it unique. However, because organization structure, legal authority, political and leadership attributes influence the respective controller offices, we attempt to focus on the core attributes and how those attributes can add value to the respective cities. To support our conclusions, the consultant team reviewed available information from the survey participant Websites, external research and survey responses.

Key Conclusions

Our critical findings focus on the following areas because we believe these are the areas that will require the greatest attention to facilitate the transformation of the City of Houston Controller becoming a business partner-oriented City Controller. Here are our key conclusions:

- The City of Houston Controller has a narrower scope of influence in comparison to elected officials.
- Term limitations interfere with becoming a business partner.
- The municipal controllers of the respondent cities are doing interesting work that influences the business environment and how citizens live.
- Fundamental changes in thinking and behavior are required to advance to a business partner.
- There is no fundamental difference between elected and non-elected officials.



Chapter 1: Framework for the Report

The context for our report stems from the diverse approaches of the survey respondents that perform the day-to-day functions of a municipal controller organization. Based on the survey responses, the unique approach each city applies to operate the controller function is what makes this report interesting. From our findings, the organizational structures vary, and the responsibilities are divided differently; but the common goal for each controller/finance/comptroller organization is to provide the most responsible and prudent guidance on how to manage and protect the financial resources of the respondent city. Therefore, it is the variety of approaches to managing a city's financial resources and enforcing accountability for doing so that serves as the basis for our analysis and conclusions.

As we examined the different controller organizations, it became apparent that some cities fall into the traditional controller category, while other controller organizations fall closer to the role of business partner; and there are survey respondents that fall between the traditional approach and the business partner. The functions of a traditional municipal controller include:

- Accounting;
- Financial systems;
- Reporting functions (regular monthly management and statutory reporting such as the Monthly Financial Report (MOFR) and the Comprehensive Annual Financial Report (CAFR));
- Financial controls;
- Compliance and audit; and
- Core transactional activity (e.g., payables, fixed assets, and general accounting).

Source: Strategic Finance, April 1999.

In addition to these roles, some controller organizations have financial management and budgetary responsibilities. In the traditional structure, these functions are often the responsibility of a finance officer.

Within the context of the core functions listed, many municipal controllers have responsibilities that extend far beyond the functions of a traditional controller. In addition, many of the terms used to describe these additional responsibilities are not in the traditional definition. For example, the City of Houston Controller has an Investment and Debt Management Division, which would fall within the financial management function. In another example, the Comptroller for New York City oversees 16 separate bureaus that include functions far beyond the scope of a traditional controller including the Citizen Action Center, Engineering, Labor Law and Real Property divisions.

One of the most important differences between the municipal controller organizations surveyed is whether the internal audit function is included in the controller's responsibilities. Most corporate finance and controller functions do not include internal audit responsibilities. In municipal government, there is a definite split. Five of the surveyed cities have controllers with both the accounting and financial reporting functions and the internal auditing functions. For six of the eleven cities, the internal auditing function is separate and independent from the office that has accounting and financial reporting responsibilities.

On the other hand, by definition, controller organizations that act as business partners are moving toward activities that include business collaboration such as decision support, continuous improvement initiatives and business leadership. The basis for our discussion about controller organizations that act as business partners comes from ongoing research conducted by Georgia State University and Gunn Partners, an international management consulting company. The study examines the evolution of controller organizations to the role of business partner and the different approaches and skills that controllers need to become business partners within their respective organizations. The research examines corporate finance and controller functions, and we believe that the corporate controller and finance groups are similar and relevant to municipal controller/audit organizations.



The Georgia State/Gunn research study clearly shows that the actions of most controller organizations are not aligned with the goal of becoming business partners within their respective organizations. According to the study, this is because controllers continue to focus on managing the finance and accounting functions rather than doing as much as they can to help the business compete in the marketplace. In comparison, our survey findings reveal that municipal controllers experience similar issues. However, the constraints of municipal controllers, such as narrowly defined city charters and differing forms of city government are vastly different from corporate controller functions.

In **Exhibit 1-1**, we show a high-level summary description of the unique attributes for each municipal controller/finance organization that responded to the survey. The exhibit shows the attributes of the controllers' office by describing four areas: (1) how the controller's office is obtained and the term of office, which explains the path to the office and the length of the term (if an elected term is applicable); (2) the title of the office, which describes the name that references the office holder; (3) the organization structure and core responsibilities, which describes how the office is organized and what the controller/audit function does and does not do, because in some cities the Department of Finance is responsible for traditional controller-related functions; and (4) the independence of the office, which states who the office holder is independent from if there is a requirement for independence because of specific functions the office performs.

Exhibit 1-1
Summary of Attributes for
Office Holders

Attributes of the Office	New York	Chicago	Houston
How Office is Obtained and Term of Office	Elected to 4 year term with a mayor/council form of government	Appointed	Elected to 2 year term with a mayor/council form of government
Title of Office Holders	Comptroller	City Comptroller	City Controller
Organization Structure and Core Responsibilities	<p>The Comptroller is accountable to the citizenry. The Comptroller shares functions with the Mayor, which include Office of Payroll Administration, Financial Information Services and Procurement Policy Board. The Comptroller oversees 16 Bureaus, that include:</p> <ul style="list-style-type: none"> Accountancy Administration Asset Management Audit Budget Citizen Action Center Contract Administration Engineering Information Systems Intergovernmental Relations Labor Law Law & Adjustment Policy Management Press Office Public Finance Real Property 	<p>City Comptroller is in the Department of Finance and reports to Chief Financial Officer. Divisions for which the City Comptroller is responsible include:</p> <ul style="list-style-type: none"> Accounting Administration Benefits Management Debt Management Fixed Assets Operations Risk Management Special Accounting 	<p>The City Controller is accountable to the citizenry, and has the following core responsibilities:</p> <ul style="list-style-type: none"> Audit Information Systems Operations Investment & Debt Management Financial Reporting Administration
Independence of the Office	The Comptroller is independent of the Mayor's office and all other City departments.	The Department of Finance conducts audits of City departments and is independent of the Mayor's office.	The City Controller is independent of the Mayor's office and all other City departments.



Attributes of the Office	Philadelphia	Phoenix	Dallas
How Office is Obtained and Term of Office	Elected to 4 year term with a mayor/council form of government	Offices are non-elected for the City Controller and City Auditor. Both offices operate in council/city manager form of government. The City Auditor is an appointment with a council/city manager form of government. The City Controller is a civil service position.	Offices are non-elected for both the City Controller and City Auditor. The City Auditor is an appointment with a council/city manager form of government. The City Controller is an appointment made by the City Manager.
Title of Office Holders	City Controller	City Controller and City Auditor	City Controller and City Auditor
Organization Structure and Core Responsibilities	<p>The City Controller heads the Auditing Department. As well as other functions, which include:</p> <p><i>City Controller:</i></p> <ul style="list-style-type: none"> Post-Audit Division Pre-Audit Division Budgetary and Financial Unit Citizen's Hotline Special Investigation Legal Administrative Services Legislative Liaison Financial & Budgetary Review Auditor of School District Debt Management Real Estate Bail Approval Housing Employee Pension Funds 	<p>The City Controller reports to the Head of the Finance Department. The City Auditor is an independent office.</p> <p><i>City Controller:</i></p> <ul style="list-style-type: none"> Financial Accounting Disbursement of Funds Reporting Payroll Administration <p><i>City Auditor:</i></p> <ul style="list-style-type: none"> Financial Audits Information System Audits Rate and Fee Audits Contract Compliance Audits Performance Measurement Program Evaluations Consulting Services Hearings 	<p>The City Controller and City Auditor operate within the Financial Services Department; the City Auditor reports directly to City Council; the Controller reports to the CFO.</p> <p><i>City Controller:</i></p> <ul style="list-style-type: none"> Reporting Financial Accounting <p><i>City Auditor:</i></p> <ul style="list-style-type: none"> Evaluate program effectiveness Account for City assets Compliance with regulations Review reliability of accounting data Recommend improvements to City operations
Independence of the Office	The City Controller is independent of the Mayor's office and all other City departments.	The City Auditor is independent of the City Manager's office.	City Auditor is an independent office created by the Dallas City Charter. The City Auditor is independent of the City Manager's Office and all operations of the City.

Attributes of the Office	San Antonio	Detroit	San Francisco
How Office is Obtained and Term of Office	The City Controller is a civil service position.	A majority of City Council is required to appoint the Auditor General for a 10-year non-renewable term.	The Mayor appoints the City Controller to a 10-year term. The Mayor has the authority to renew the term of the City Controller. Mayor/council form of government.
Title of Office Holders	City Controller	Auditor General	City Controller
Organization Structure and Core Responsibilities	<p>The City Controller reports to the Finance Department within the Accounting Division; the Controller reports to the Assistance Director who reports to the City Manager.</p> <p>The City Controller is responsible for the following areas:</p> <ul style="list-style-type: none"> Capital Projects Payroll General Ledger Accounts Receivable Fixed Assets Financial Reporting 	<p>The Auditor General is responsible for conducting:</p> <ul style="list-style-type: none"> Financial Related Audits Performance Audits Budget Analysis Reports Special Reports <p>The Finance Department handles a broader range of traditional controller functions.</p> <p><i>Finance Department</i></p> <p>Administration</p>	<p>The City Controller is responsible for the following areas:</p> <ul style="list-style-type: none"> Accounting & Systems Administration Audits Budget City Projects Payroll Performance Management



	Grants The audit function is not part of the City Controller and is part of the Office of Internal Review.	Accounts Assessments Debt Management (including capital financing) Income Tax Pension Purchasing Risk Management (including worker's compensation) Treasury	
Independence of the Office	The audit function performed by the Office of Internal Review is independent of the Mayor's office.	The Auditor General is independent of the Mayor's office and all other City departments.	The City Controller is independent of the Mayor's office and all other City departments.

Attributes of the Office	St. Louis	Pittsburgh
How Office is Obtained and Term of Office	Elected to 4 year term with a mayor/council form of government	Elected to a 4-year term with a mayor/council form of government
Title of Office Holders	Comptroller	City Controller
Organization Structure and Core Responsibilities	As an elected official, the St. Louis Comptroller has a straightforward organization structure. The Comptroller is accountable to the citizenry, and has the following core responsibilities: Accounting Services Asset Management Central Business Index Federal Grants Section Internal Audit Section Finance & Economic Development Financial Reporting Municipal Garage Payroll Services Real Estate Section Records Retention Telecommunications Section	The City Controller is accountable to the citizenry, and has the following core responsibilities: Accounting Performance audits Fiscal audits Information systems Contracts Payroll Engineering
Independence of the Office	The City Comptroller is independent of the Mayor's office and all other City departments.	The City Controller is independent of the Mayor's office and all other City departments.

Below we provide brief explanations of the differences between the City of Houston Controller and the respondents to our survey. The comparisons highlight the vast differences in organizational structure, scope of responsibility and other factors that make each city unique.

New York City, Office of the Comptroller

How Office is Obtained and Term Limitations

The Comptroller for New York is an elected official that serves four-year terms with a two-term limit. In comparing the office to the City of Houston Controller, both officials obtain the office by popular election; the New York City Comptroller serves two years longer than the City of Houston Controller in comparing maximum terms for both offices. The maximum term for the Comptroller is two 4-year terms and for the City of Houston Controller, the maximum term is a two years and a limit of three terms.

Form of Government & Independence

The New York City Office of the Comptroller operates within a mayor/city council structure. The Comptroller for New York operates in a "strong-mayor" form of government. The City of Houston Controller operates under a similar form of government whereby the mayor sets the agenda and priorities for the City. In both cases, the Office is accountable to the citizenry that elected them to hold the office. The Comptroller for New York and



the City of Houston Comptroller both operate independent offices and their ultimate accountability is to the citizens of their respective cities. As a result, both offices are independent from the influence of city departments.

Organization and Core Responsibilities

The organization structure for the Comptroller is comprised of 16 separate bureaus. Each of the 16 bureaus is a separate entity within the organization chart. In addition, each bureau chief reports directly to a deputy controller that reports up through the chief of staff to the City's Comptroller. By comparison, the City of Houston Comptroller's organization consists of six divisions. The New York City Comptroller has a much broader scope of authority in describing the roles and objectives for each bureau as shown on the Comptroller's Web site. The survey responses reveal vastly different staff sizes in which the Comptroller reports a staff size of 735, which dwarfs the City of Houston Comptroller staff size of 93 employees. The Comptroller staff size for New York has a much broader scope and programmatic responsibilities that contribute to the large staff size in comparison to the City of Houston Comptroller.

Chicago, City Comptroller

How Office is Obtained and Term Limitations

The City Comptroller for Chicago is an appointed position with no term limits that serves as a civil servant. By comparison, the City of Houston Comptroller, obtains the office by popular election. The maximum term for the City of Houston Comptroller is three 2-year terms.

Form of Government & Independence

The City Comptroller for Chicago operates in a "weak-mayor" form of government, in which the City Manager serves as the day-to-day executive that executes the priorities established by city council. The City Comptroller is under the Department of Finance and reports to the Chief Financial Officer. In comparison, the City of Houston Comptroller operates under a "strong-mayor" form of government whereby the mayor sets the agenda and priorities as well as overseeing the execution of those priorities for the City.

Organization and Core Responsibilities

In comparison to the City of Houston Comptroller, the organization structure for the Chicago City Comptroller is comprised of eight divisions, which include accounting; administration; benefits management; debt management; fixed assets; operations; risk management and special accounting. The core functional areas that both offices perform are operations, debt management and administration. According to the survey, it is worthy to note that the City Comptroller for Chicago out sources the preparation of the comprehensive annual financial report (CAFR); by contrast, the City of Houston Comptroller takes full ownership of the production of the CAFR. The survey responses reveal vastly different staff sizes in which the Chicago City Comptroller reports a staff size of 226, while the City of Houston Comptroller reports a staff size of 93 employees.

Dallas, City Controller

How Office is Obtained and Term Limitations

To execute the traditional controller functions, Dallas office holders obtain their office by appointment. The Dallas City Controller is an appointment made by the City Manager. The City Auditor is an appointment made by the City Council. Term limits are not applicable for the Dallas office holders. By contrast, the City of Houston Comptroller obtains the office by popular election for a two-year term, with a limit of three terms.



Form of Government & Independence

The Dallas City Controller operates within a city council/city manager structure, with the City Controller's Office reporting to the Chief Financial Officer in the Financial Services Department, and the City Auditor reporting to City Council. In comparison, the City of Houston Controller operates in a mayor/council structure with a strong mayor and is accountable to the citizenry of the City of Houston, and is independent from the Mayor's office and all city departments. By contrast, the City Auditor for Dallas is independent of the City Manager's Office and all operations of the city.

Organization and Core Responsibilities

The Dallas City Controller and City Auditor perform different roles. In comparison to the City of Houston Controller, the Dallas City Controller's primary responsibilities are financial accounting and reporting; the Dallas City Controller does not have any auditing responsibilities as this responsibility vests with the City Auditor who is appointed by City Council. The survey responses reveal somewhat different staff sizes in which the Dallas City Controller reports a staff size of 45, and the Dallas City Auditor has a staff size of 31, while the City of Houston Controller reports a staff size of 93 employees.

Phoenix, City Controller

How Office is Obtained and Term Limitations

To execute the traditional controller functions, Phoenix office holders obtain their office by appointment. The City of Phoenix Controller is an appointment made by the Finance Director. The City Auditor is also an appointment that is made by the City Manger. Term limits are not applicable for the Phoenix office holders. By contrast, the City of Houston Controller obtains the office by popular election for a two-year term and a limit of three terms.

Form of Government & Independence

The Phoenix City Controller operates within a city council/city manager structure, with the City Controller reporting to the Finance Director, and the City Auditor reporting directly to the City Manager. In comparison, the City of Houston Controller operates in a mayor/council structure with a strong mayor, which is accountable to the citizenry of the City of Houston, and is independent from the Mayor's office and all City departments.

Organization and Core Responsibilities

The City of Phoenix Controller's Office operates within a city council/city manager structure, with the Controller reporting to the Finance Director. In comparison to the City of Houston Controller, the City of Phoenix Controller's primary responsibilities are financial accounting and reporting. Audit functions are the responsibility of the City Auditor, who receives an appointment by the City Manager; the City Auditor reports directly to the City Manager and the Audit Committee. The survey responses reveal different staff sizes in which the Phoenix City Controller reports a staff size of 63, and the Phoenix City Auditor has a staff size of 35, while the City of Houston Controller reports a staff size of 93 employees.

San Antonio, City Controller

How Office is Obtained and Term Limitations

To execute the traditional controller functions, the San Antonio office holders obtain their office by appointment. The City of San Antonio's Controller is a civil service position, and term limits are not applicable for the San Antonio office holders. By contrast, the City of Houston Controller obtains the office by popular election for a two-year term and a limit of three terms.



Form of Government & Independence

The San Antonio City Controller operates within a city council/city manager structure, with the City Controller reporting to the Finance Director, and the City Auditor, as part of the Office of Internal Review, reporting to the City Manager. In comparison, the City of Houston Controller operates in a mayor/council structure with a strong mayor, which is accountable to the citizenry of the City of Houston, and is independent from the Mayor's office and all City departments.

Organization and Core Responsibilities

The Controller reports to the Assistant Director who reports to the City Manager within the Accounting Division of the Finance Department. In comparison to the City of Houston Controller, the audit functions are part of the Office of Internal Review, which includes the internal audit group, a municipal integrity group with investigative powers and an equal opportunity office; the head of the Office of Internal Reviews reports to an assistant city manager. In addition, the survey responses reveal that the San Antonio City Controller has a staff size of 123 city employees; by contrast, the City of Houston Controller has a staff size of 93 employees.

San Francisco, City Controller

How Office is Obtained and Term Limitations

To execute the traditional controller functions of the Controller, the San Francisco City Controller obtains the office by appointment from the Mayor for a 10-year term, which is also renewable by the Mayor. Term limits are not applicable for the city of San Francisco office holder. By contrast, the City of Houston Controller obtains the office by popular election for a two-year term and a limit of three terms.

Form of Government & Independence

The San Francisco City Controller operates within a mayor/council structure with a Board of Supervisors. In comparison, the City of Houston Controller operates in a mayor/council structure with a strong mayor, who is accountable to the citizenry of the City of Houston, and is independent from the Mayor's office and all City departments. The City Controller is independent of the Mayor's office and all other city departments.

Organization and Core Responsibilities

The San Francisco City Controller is the only appointed official that has both financial reporting and audit responsibilities. By comparing to the City of Houston Controller, the Office has broad responsibilities for accounting & systems, administration, audits, budget, city projects, payroll and performance management. The survey responses reveal that the San Francisco City Controller has a staff size of 150 city employees, which is significantly larger than the City of Houston Controller with 93 city employees. The difference in staff size is attributable to the broader responsibilities and strategic functions such as the performance management unit.

Detroit, Chief Financial Office

How Office is Obtained and Term Limitations

To execute the traditional controller functions of a Controller, the Finance Department of the City of Detroit performs many of the traditional controller functions, which is comparable to the City of Houston Controller. For the Audit function, a majority of City Council appoints the Auditor General to a 10-year non-renewable term. By contrast, the City of Houston Controller obtains the office by popular election for a two-year term and a limit of three terms.



Form of Government & Independence

The City of Detroit Auditor General operates within a mayor/city council structure. In comparison, the City of Houston Controller operates in a mayor/council structure with a strong mayor, who is accountable to the citizenry of the City of Houston, and is independent from the Mayor's office and all City departments. The Auditor General is independent of the Mayor's office and all other City departments.

Organization and Core Responsibilities

The Department of Finance reports to the Chief Financial Officer/Finance Director and is responsible for traditional controller functions that include administration, accounts, assessments and debt management (including capital financing, risk management, purchasing, pension and treasury). In contrast, the Auditor General performs largely an audit function by conducting financial related audits, performance audits, preparing budget analysis reports and special reports. By comparison, the City of Houston Controller has elements of both the Finance Director and Auditor General responsibilities. The survey responses report that the Department of Finance has a staff size of 554 and the Auditor General reports a staff size of 26 city employees, which is significantly larger than the City of Houston Controller with 93 city employees, due to a more expansive scope of responsibility.

Pittsburgh, City Controller

How Office is Obtained and Term Limitations

The Pittsburgh City Controller obtains the office by popular election and serves a four-year term with no term limits. By contrast, the City of Houston Controller obtains the office by popular election with a two-year term and a limit of three terms.

Form of Government & Independence

The City of Pittsburgh City Controller operates within a mayor/city council structure. The City of Houston Controller operates under a similar form of government whereby the mayor sets the agenda and priorities for the City. In both cases, the Office is accountable to the citizenry that elected them to hold the office. The Controller's Office for Pittsburgh and the City of Houston Controller both operate independent offices and their ultimate accountability is to the citizens of their respective cities. As a result, both offices are independent from the Mayor and the influence of City departments.

Organization and Core Responsibilities

The City of Pittsburgh Controller's Office and the City of Houston Controller have similar responsibilities and organization structure. In comparison to City of Houston Controller, the Pittsburgh City Controller has the responsibility for accounting, performance audits, fiscal audits, information systems, contracts, payroll and engineering. In addition, all of the departments described for both Controllers report directly to the City Controller. Underneath the terminology of the department names, both offices perform similar functions. For example, the City of Houston has the capacity to conduct performance audits, while Pittsburgh explicitly states that it has the responsibility. A difference between the offices is that the City of Pittsburgh's Controller does not have the responsibility for Investment and Debt Management, while the City of Houston Controller does have this responsibility. The survey responses reveal that the Pittsburgh Controller has a staff size of 78 city employees; in comparison, the City of Houston Controller has 93 city employees.



Philadelphia, Office of the City Controller

How Office is Obtained and Term Limitations

The Office of the City Controller for the City of Philadelphia is an elected official that serves four-year terms with no term limitations. In comparing the office to the City of Houston Controller, both officials obtain the office by popular election. By contrast, the City of Houston Controller enjoys a 2-year term with a limit of three terms.

Form of Government & Independence

The Philadelphia City Controller operates within a mayor/city council structure. The City of Houston Controller operates under a similar form of government whereby the mayor sets the agenda and priorities for the City. In both cases, the Office is accountable to the citizenry that elected them to hold the office. The Controller's Office for Philadelphia and the City of Houston Controller both operate independent offices and their ultimate accountability is to the citizens of their respective cities. As a result, both offices are independent from the Mayor and the influence of City departments.

Organization and Core Responsibilities

The Office of the City Controller for Philadelphia emphasizes the audit function as a major role in running its day-to-day operation. For example, the Post-Audit division performs annual financial and/or performance audits of every city officer, department, board and commission and, to the extent necessary, any agency receiving appropriations from the City. The Pre-Audit division consists of the Expenditures and Receipts Control Section, which verifies and approves all expenditures of the City. The Technical Unit uses auditing and engineering personnel to inspect and audit capital projects and to conduct special studies when requested by the Controller. The Special Investigations Division investigates alleged waste and improprieties by City employees and persons or companies doing business with the City. An annual financial audit and other reviews of the School District of Philadelphia is another responsibility of the Office; in addition, whenever the Controller deems them necessary, or as requested by the Mayor, the Philadelphia City Controller may conduct special audits. By contrast, the City of Houston performs financial audits of city departments, but does not conduct audits or reviews of the Houston Independent School District and to a lesser degree the Controller conducts performance audits.

The Philadelphia City Controller, however, does not have responsibility for many of the core controllership functions. The office does not have accounting functions and does not prepare the Annual Financial Report. In comparison to the City of Houston Controller, the City of Philadelphia Controller has three deputy city controllers that report directly to the Controller; this includes Post-Audit, Pre-Audit and Chief of Staff. The Chief of Staff has five areas reporting directly to its office, which include special investigation, legal, administrative services, legislative liaison, and financial & budgetary review. The remaining responsibilities report directly to the City Controller. The survey responses reveal that the Philadelphia Controller has a staff size of 138 city employees; in comparison, the City of Houston Controller has 93 city employees.

St. Louis, Comptroller's Office

How Office is Obtained and Term Limitations

To execute the traditional controller functions of a Controller, the City of St. Louis Comptroller obtains the office by popular election for a 4-year term with no term limits. In comparison, the City of Houston Controller also obtains the office by popular election for a two-year term and a limit of three terms.

Form of Government & Independence

The City of St. Louis Comptroller operates within a mayor/city council structure. The City of Houston Controller operates under a similar form of government whereby the mayor sets the agenda and priorities for the



City. In both cases, the Office is accountable to the citizenry that elected them to hold the office. The Comptroller's Office for St. Louis and the City of Houston Controller both operate independent offices and their ultimate accountability is to the citizens of their respective cities. As a result, both offices are independent from the Mayor and the influence of City departments.

Organization and Core Responsibilities

The City of St. Louis Comptroller and the City of Houston share similarities, but there are also distinct differences between the elected officials. In comparison to the City of Houston Controller, the St. Louis Comptroller has responsibility for accounting services, asset management, central business index (C.B.I.), federal grants section, finance & economic development, financial reporting, internal audit section, municipal garage, payroll services, real estate section, city owned property, records retention (archives) and the telecommunications section. An example shows that the City of Houston Controller does not have responsibility for the Municipal Garage unlike the Comptroller for St. Louis.

In addition, the Comptroller for St. Louis is one of three members of the City's Board of Estimate and Apportionment. The office also serves as the cost center for payment on the principal and interest on Tax Increment Revenue bonds and certain administrative costs for the Lateral Sewer Line program. Similar programs are not managed by the City of Houston Controller, but other departments within the City of Houston are responsible for similar programs. The survey responses show that the St. Louis Comptroller has a staff size of approximately 90 city employees; in comparison, the City of Houston Controller has 93 city employees.



Chapter 2: Becoming a Business Partner

This chapter provides our analysis of municipal controller organizations in relation to becoming business partners. Our research shows that administrative departments in both corporate and government settings are coming under increasing pressure to do more with less and at the same time continue to add more value as defined by the end-user of their services. To augment our survey findings, we examined research by Georgia State University and Gunn Partners, an international consulting and research firm, which collaborated to initiate a research project in 1997 to examine how controller organizations can become business partners. The research on this subject by Georgia State and Gunn continues in 2002 with updates to the first report issued in 1999. In conducting our comparative benchmarking between the respondent cities and the City of Houston Controller, we use this research as a basis to frame the survey findings and external research of each survey respondent to determine how the City of Houston Controller compares to respondent controllers relative to becoming a business partner.

What is a Business Partner

Based on the survey responses, we define the traditional controller/financial watchdog and business partner as two distinct organizational approaches. Our analysis reveals that all of the controller organizations possess some characteristics of both the financial watchdog and business partner. To define adequately the business partner role, it is helpful to compare this role with that of traditional municipal controller/audit organizations that serves as financial watchdogs.

The Financial Watchdog

In this organization, the controller function generally views as its ultimate responsibility to ensure that city funds are properly allocated, accounted for and distributed in accordance with generally accepted accounting principles, as well as City ordinances, state laws, federal laws, grantor requirements and bond covenants. The financial watchdog tends to focus narrowly on the core functions of the Office. Examples of these functions include bank reconciliation, financial reporting, treasury management and auditing activities. Thus, the office tends to have a *compliance orientation* that ensures taxpayer resources are properly collected, allocated and reported with less emphasis on how to identify and extract value across city departments.

The Business Partner

The business partner, by contrast, acts as the trusted advisor to city departments. With its trusted advisor status (which varies depending on the organization structure and approach of city controller organizations), the controller organization that approaches its role as a *business partner* tends to be proactive in its relationship with city departments that use its services. In general, the business partner is systematically looking for ways to save money, optimize existing processes and create sustainable solutions. Emphasis is on establishing a shared agenda with city officials on what the priorities should be. The desire to obtain agreement or reach consensus with city departments on financial issues typically drives the behavior of controller organizations that view themselves as business partners. Thus, the office tends to have an *advisor orientation* that is less adversarial and focuses on developing joint solutions.

Advancing to Become a Business Partner

Municipal controller organizations have a lot in common with corporate controller functions. Most notably, both public and corporate controller functions operate from a *traditional* controller perspective. The *traditional* controller is typically responsible for the following:

- Accounting;
- Financial systems;
- Reporting functions (regular monthly management and statutory reporting such as the Monthly Financial Report (MOFR) and the Comprehensive Annual Financial Report (CAFR));



- Financial controls;
- Compliance and audit; and
- Core transactional activity (e.g., payables, fixed assets, and general accounting).

This is not an all-inclusive list, because as we show in **Exhibit 1-1**, many of the survey respondents take on dramatically different functions in addition to the traditional functions outlined above. According to the Georgia State/Gunn research, the definition for business partner centers around three questions. First, does the municipal controller have *common goals* with city departments and the mayor's office? Second, does the municipal controller have *shared accountabilities* with front-line department heads? Shared accountability means that the municipal controller shares in the risks with department leaders; if poor decision making is taking place, for example, then the associated risk is shared equally. Third, does the municipal controller have *complementary capabilities*? Controllers have a set of skills to help identify, define and structure decision-making that can influence fiscal performance. Thus, the structured thinking and analytical skill gives the controller the ability to make key decisions to help define and structure those decisions effectively. To begin our analysis, we define the three key attributes to becoming a business partner for controller/audit functions: (1) common goals; (2) shared accountability and (3) complimentary capabilities.

Common Goals

According to the survey results, organization structure and form of government are significant factors that can influence establishing common goals with department heads as well as with mayor and their respective staffs. The importance of establishing common goals is crucial when it comes to making difficult fiscal decisions about the city's financial resources and priorities for how money is spent. The perception of the role for some municipal controller/audit functions, as well as the form of government and how the controller obtains office, can affect their ability to establish common goals. For example, on its Website, the City of Houston Controller refers to itself as the "taxpayers' watchdog" and describes the checks and balances that exist between the City Controller, City Council and the Mayor. On the Dallas Website, the City Auditor for Dallas states that its office serves as a "watchdog" for the citizens of Dallas, but also serves as a catalyst to improve the efficiency and effectiveness of city government. By contrast, the City Controller for Dallas is largely responsible for monthly and quarterly reporting and pre-audit of city disbursements.

By examining the perspectives held by the City of Houston Controller and the Dallas City Auditor, the "watchdog" approach does not lend itself to establishing common goals between the City of Houston Controller and City departments. To establish common goals assumes meaningful and collaborative working relationships exist between the City of Houston Controller and the leaders of City departments. The phrase, "financial watchdog" can have a negative connotation that potentially would not foster the type of close working relationships required to establish common goals. The Audit-based functions typically rely on the concept that "we are here to help." Unfortunately, most departments that are under review in both the public and private sectors do not feel that the audit-based controller is actually on-site to help.

To establish common goals with City departments and the Mayor is even more difficult with a two-year term as shown for the City of Houston Controller. When compared to survey respondents that have terms of office, the City of Houston Controller has the shortest term of all of the cities surveyed as shown in **Exhibit 1-2**. Please note that the City Council appoints the Detroit Auditor General to a 10-year nonrenewable term and the Mayor appoints the City Controller for San Francisco to a 10-year term that is renewable by the Mayor. The remaining cities in the exhibit obtain their office through popular election.



Exhibit 1-2
Terms of Office for City
Controller's Responding to Benchmark Survey



Establishing common goals with City departments and the Mayor's office takes time. However, since establishing common goals is the first step toward becoming a business partner, sharing in the risks and participating in the decision-making process are elements that enhance the controller's credibility to facilitate becoming a business partner.

Shared Accountability

The approach to *shared accountability* between municipal controllers and city departments requires behavioral changes in the way both controller/auditors share information, approach decision-making and communicate with city departments. Shared accountability implies that the municipal controller shares in the risks with department leaders; if poor decision-making is taking place, then the associated risk is shared equally. The absence of shared accountability can adversely affect the quality of decisions that city officials make because there can be a tendency to point fingers if a decision results in a poor outcome. The ultimate purpose of shared accountability is to develop the ability to manage effectively priorities and to create an environment that focuses on the business performance of city departments.

According to survey respondents, the concept of shared accountability takes on several different forms. For example, in spite of the fact that both the City of New York Comptroller and the Mayor are elected officials, they share a dual reporting relationship in which the Office of Payroll Administration, Financial Information Services and the Procurement Policy Board¹ report to both the City Comptroller and the Mayor. By comparison, the City of Houston Controller does not share reporting relationships for any City departments with the Mayor's Office.

Another interesting approach to sharing accountability is the composition of the Audit Committee in the City of Phoenix. The Audit Committee consists of two elected officials designated by the Mayor, the City Manager, Assistant City Manager, the City Auditor, the Finance Director and the Budget and Research Director. Moreover, the Phoenix City Auditor oversees a comprehensive program entitled "Managing for Results." According to its Website, during the 1970s, the City of Phoenix focused considerable attention on work standards, resources applied and outputs. In the 1980s, the City of Phoenix emphasized productivity and began to measure customer satisfaction as an organization. In the 1990s, the City Auditor has evolved to shift to a focus on results.² Because of these efforts, the challenges faced by the City of Phoenix are at the business level and the politics is less of a factor.

With *shared accountability* as an integral part of becoming a business partner, if poor decision making is taking place, then the associated risk comes to the spotlight in the "managing for results" model implemented by the

¹ City of New York organization chart, June 2002.

² City of Phoenix, Managing for Results Report, 2002.



City of Phoenix. By contrast, the City of Houston Controller has not implemented shared decision-making processes that require a collaborative approach to facilitate shared accountability on financial-related issues and the overall performance of the City of Houston. To have shared accountability in place requires that the controller/auditor have the requisite skills to bring to the process and that the Mayor and City departments value those skills.

Complementary Capabilities

The survey findings reveal that all of the survey respondents possess *complementary capabilities* that would add value to department and executive leadership across the respondent cities. Complementary capabilities include key skills such as structured thinking and the analytical skills that employees with accounting and finance disciplines tend to have; which gives controller/audit functions the ability to make key financial management decisions and then to effectively implement those decisions. Controllers are also effective at identifying areas of risk and then helping departmental leadership to create the optimal balance between the risk and expected outcomes.

All of the survey respondents possess many of the *complementary capabilities* that would be useful to any city's administration. These capabilities include the ability to identify investment alternatives, raise capital, calculate return on investment, as well as to establish measurement indicators to meet fiscal goals. However, the agencies and divisions of municipalities typically turn to the finance department for advice related to these capabilities. For example, the City of Houston has a Department of Finance and Administration (F&A) that provides the Mayor's Office with financial and analytical support for decision-making and evaluative support on issues that are important to the Mayor and City Council. By comparison, the City of Houston Controller is capable of providing similar support to the Mayor and City Council, and could so as an independent authority, which can minimize potential risk as decisions are made. By contrast, the St. Louis Comptroller's Office, which is also an elected official, supervises *all* of the fiscal affairs of the City and is independent of the Mayor's Office; there is no supplemental department for City leaders and the Mayor to consult on key financial issues or analysis for decision-making. Another illustration shows that the City of Phoenix City Auditor provides complementary capabilities to City departments including consulting services, expertise on performance management and program evaluation.

The complementary skills that all controller/audit functions possess can add tremendous value to improving overall decision-making and performance in City departments as shown by the examples above. The examples of the municipal controller/audit functions provide a starting point for discussion on how the City of Houston Controller can begin to lay the ground work to becoming a business partner.

Road to Business Partner

The survey respondents in our study demonstrate varying degrees of the business partnership role. To become a business partner that provides advice on critical issues is the ultimate complement for an administrative function that embraces the role of business partner. For municipal controller functions, the opposite is true if the controller/audit organization is perceived as having the ability to tell only the department what they are doing wrong rather than helping to approach creatively how to solve difficult problems with existing resources. Our analysis now turns to the requirements for becoming a business partner. The key elements to becoming a business partner for a municipal controller function include:

- Commitment to being a Business Partner
- Contributing to the Strategic Planning Process
- Building Employee Capacity



Commitment to Business Partnerships

The degree to which survey respondents are actively involved in implementing initiatives and risk taking varies among municipal controller/audit organizations. Some of the survey respondents implement the business partnership role by infusing it into organizational processes and ensuring that business partnership is integrated into the core values of the organization. They recognize that becoming a business partner is an important goal and position the responsibility throughout the controller/auditor organization.

The types of programs and initiatives municipal controllers undertake offer a glimpse of the commitment of the controller/audit function in becoming a business partner. For example, the City of Phoenix City Auditor provides service offerings typical of an external consulting company. These offerings include:

- Information System Audits
- Performance Measurement
- Program Evaluations
- Consulting Services

By comparison, the Phoenix City Auditor has more of the core responsibilities that are similar to the City of Houston Controller; in addition, the Phoenix City Auditor is independent of the authority of the Phoenix City Manager. By contrast, the Phoenix City Controller has a narrow set of responsibilities that includes only financial accounting, disbursement of funds, reporting and payroll administration. Furthermore, the City of Houston Controller's service offerings are limited due to its organization structure, which has the Audit Division as a part of the Controllers Office. This highlights the differences in organization structures and how the form of government can influence how each city executes its day-to-day operations.

As described earlier, the Phoenix City Auditor has evolved to become a business partner. To illustrate, during the 1970s, the City of Phoenix focused considerable attention on work standards, resources applied and outputs. In the 1980s, the City of Phoenix emphasized productivity and began to measure customer satisfaction as an organization. In the 1990s, the City Auditor has evolved to shift to a focus on results.³ Because of these efforts, the challenges faced by the City of Phoenix are discussed at the business level with performance improvement as the focal point.

Another example of a business partnership model is reflected in the New York Comptroller's innovative approach to overhaul the Mayor's Management Report (MMR). The MMR uses performance outcomes to assess the success of goals and objectives for service programs and as a factor in determining budgets for these programs. By contrast, the City of Houston Controller's approach to working with City departments centers on audit-related activities, rather than citywide performance improvement initiatives.

The skill with which controller/audit organizations approach and manage technology projects is another key attribute that is important becoming a business partner. For example, the City of Houston Controller has implemented new technology within its organization over the last several years, which has benefited all City departments either directly or indirectly. The projects include implementing portfolio management software for the Investment and Debt Division, electronic work papers for the Audit division and archival software to improve the efficiency of document handling. However, the technology implemented by the City of Houston Controller tends to be more internally focused rather than citywide in scope as compared to respondent cities.

Another example shows that one of the primary goals for the Pittsburgh City Controller is to combine *all* City accounting systems to eliminate unnecessary duplication of work, such as data entry, and to improve data compilation as well as data integrity across departments. Combining disparate accounting systems across City departments as described by the Pittsburgh City Controller tend to have high degrees of risk to implement successfully, which is typically the case with cross-functional technology solutions because of the inherent volatility of large-scale projects. Moreover, these types of projects require a degree of alignment with the City's IT department to adequately plan and to deliver.

³ City of Phoenix, Managing for Results Report, 2002.



End-users of the services provided by municipal controller/audit organizations are also demanding new ways to improve business performance that is generally tied to technology. For example, the City of San Antonio Controller is implementing a citywide enterprise resource planning (ERP) system. The City Controller for San Francisco is leading the implementation of the City's Time Entry Scheduling System (TESS) that will be installed in all departments using full citywide payroll processing services. This system provides online, real time editing of all payroll entries against provisions in the City's 64 union contracts. TESS will serve as a single point of entry for labor funding codes, interfacing directly with the newly upgraded financial system applications.

An interesting corollary from the survey data reveals that lower amounts of spending for technology are generally with survey respondents who are elected officials. By contrast, larger technology expenditures tend to be with non-elected controller/audit organizations. **Exhibit 1-3** shows the percentage of budget allocated for technology spending for the survey respondents.

Exhibit 1-3
Percentage of Budget
Allocated for Technology Spending



Overall, survey respondents that are moving closer to becoming business partners have demonstrable evidence of their technology-related activities and consistent behaviors to support their long-term commitment to becoming a business partner with city departments. For example, the City Controller for San Antonio is leading the reengineering of citywide business processes to implement an ERP system, the City of Pittsburgh is doing similar work and the City of New York is overhauling the Mayor's management report.

Building Employee Capacity

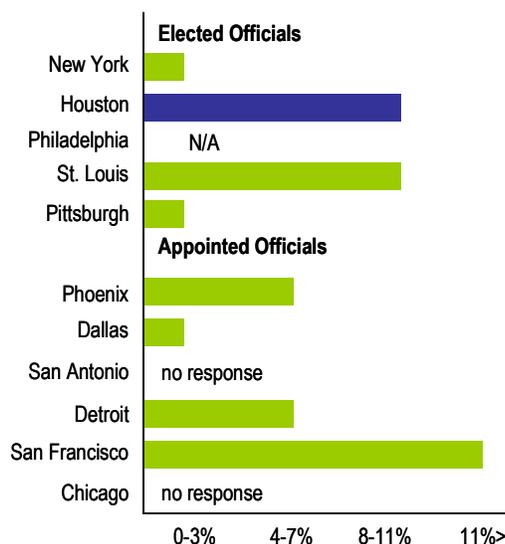
When it comes to employees, the survey respondents that are advancing their organizations to becoming business partners are pushing key initiatives that build employee capacity. These areas include tuition reimbursement, flexible work schedules and employee development through continuing education, job rotation and other employee-friendly strategies. Another strategy for building employee capacity is to reduce employee turnover. With lower employee turnover, municipal controller/audit organizations can build and retain the talent it needs and, more importantly, establish and maintain relationships that are vital to becoming a business partner.

To build employee capacity, employee turnover should be a focal point for some municipal controller organizations. For example, the City of Houston Controller has an approximate annual turnover rate between 8



and 11 percent for full-time staff, which may be attributable to the two-year term and may contribute in part to the shuffling of staff for a new administration. By comparison, only the St. Louis Comptroller and City Controller for San Francisco have similar or higher levels of turnover. **Exhibit 1-4** shows the annual turnover for all of the survey respondents.

**Exhibit 1-4
Annual Staff Turnover for
All Survey Respondents**



A key issue that is frequently cited as the root cause of employee turnover is the relatively low pay in comparison to private industry. With the state of the overall economy and decreasing municipal revenues, salary increases are not practical. As a result, interviews with executive staff within the City of Houston Controller’s organization revealed concerns that the depth in management talent may not be sufficient to provide the long-term leadership needed to manage the various divisions within the organization. However, our analysis shows that municipal controller/audit functions offer opportunities for their employees to get involved with new initiatives, such as providing consulting services similar to those provided by the City of Phoenix Auditor as well as business process improvement initiatives. By reinventing the City of Houston Controller organization as a business partner, executive management can establish a solid foundation to address the potential dearth of management and leadership talent and develop well-defined career paths that enable employees to see a logical progression of their respective careers.

Another strategy to build employee capacity is introducing students to the controller/auditor environment through internships. The City of Phoenix City Auditor has established a City Auditor intern program. These interns assist senior staff conducting internal audits and are exposed to a variety of City operations which allows them to develop various research, audit, and analytical review techniques. By comparison, the City of Houston Controller does not have an auditor intern program, but the business climate and the Texas college system provides an excellent opportunity to explore a similar strategy.

Building employee capacity will require new and different skills. According to the survey, virtually all of the municipal controller/audit functions are implementing new technology. Survey results rank staff skills, project management and failure to meet expectations as the top areas of concern other than cost control and return on investment.⁴ This skills deficit is underscored in the more complex area of arbitrage rebate compliance and reporting. According to the survey, seven out of 11 of the respondents or 63 percent outsource or partially outsource this function.

⁴ Appendix, survey question 30.



The employee capacity gap in corporations is just as challenging. For example according to Gunn Partners research, “there are some structural impediments in terms of gaps in the controllers’ education, training, and development. Few companies are investing a lot in building people-side competencies, and building the leadership skills within their finance and controller’s organizations. Some are, but by and large, it is an area where most companies are under-investing by a large amount.”

In summary, survey respondents that are moving closer to becoming business partners will continue to face hurdles in building employee capacity. However, we believe exploring new employee development and human resource models and updating the skills to implement new initiatives can enhance the overall capacity of employees within the municipal controller function.

Contributing to the Strategic Planning Process

Strategic planning focuses on creating measurable ways that the City of Houston can support its strategic direction, goals, and objectives. In order to become a business partner, the municipal controller/auditor must become an integral part of the planning process. As we described earlier in the report, *complementary capabilities* is the value proposition of the municipal controller/auditor that City departments and the Mayor should exploit to its full capacity. For example, the ability to critically think through and calculate “what-if” scenarios is a tremendous asset to the strategic planning process from which City departments can benefit. We believe that the planning process is enhanced by involving the controller/audit function in strategic planning initiatives to enhance the overall fiscal management of the City’s resources. For example, the municipal controller/auditor is in an ideal position to collaborate with City departments and the Mayor to establish priorities, calculate return on investment for specific initiatives, develop performance indicators and monitor the performance of those indicators as a consultant to City departments.

To illustrate the strategic planning gap that exists between municipal controllers and the City departments, the technology department for the City of Houston published a recent citywide technology strategic plan⁵ that fails to take into account the need to aggregate information to improve decision-making across the city. According to interviews with City of Houston Controller executives, providing useful information for decision-making is critical to the role of the Controller as well as the ability of all departments to make better decisions through data analysis. Moreover, the Mayor of the City of Philadelphia launched a strategic planning initiative that consists largely of transportation staff, planning commission and project managers without the Philadelphia City Controller’s involvement in this process. According to publicly available information, all of the elected officials appear not to be a part of their cities’ respective strategic planning processes.

By contrast, to assist with strategic planning efforts, the non-elected municipal controllers of San Antonio, Detroit and San Francisco are considering investments in business intelligence software, according to the survey. Business intelligence software is vital to strategic planning in several ways. First, this technology allows department heads to identify patterns and trends that helps to understand operational issues. Second, business intelligence software provides a global view of operational data that executives can use to improve decision-making. Third, this technology provides the analytical capabilities as a service at the manager’s desktop; this provides departments with the strategic capabilities for improving budgeting and process improvement rather than requesting reports to view information in a particular way. To demonstrate their commitment to the strategic planning process, the City and County of San Francisco is working with City departments to implement an Executive Information System (EIS). EIS technology creates user-friendly reports that allow managers to interpret and use financial data for tracking and planning purposes.⁶

What are the barriers that prevent controller organizations from becoming a business partner? According to Gunn Partners research, the answer is because its (business partnership) achievement represents an enormous challenge.⁷ With the rigid city charters, various forms of government, term limits and politics, this challenge is

⁵ City of Houston – Strategic Technology Plan, July 2001.

⁶ City of San Francisco Website <http://www.ci.sf.ca.us/controller/overview.htm>.

⁷ Gunn Partners Research, Volume 4 Support Functions as Business Partners, March 1999.



even greater for municipal controller functions. A core set of building blocks need to be in place to form the foundation for true business partnership. These building blocks include:

- Establishing the right organizational structure and relationships;
- Determining the right set of skills and competencies and developing supporting processes to attain and strengthen them;
- Constructing the right management systems to reinforce and reward partnership behavior and help everyone choose paths that optimize business performance;
- Providing the right analytical tools and the right frameworks on which to build; and
- Building the right culture and leadership model to allow this way of working together to flourish.⁸

The building blocks highlighted above serve as key elements that the City of Houston Controller will need to address in becoming a business partner organization. Our conclusions represent what we have interpreted from the survey data, and research of the respondent cities to provide an approach that describes how the uniqueness of the City of Houston Controller can be addressed to overcome the hurdles inherent to Houston's form of government and other structural factors.

⁸ Gunn Partners Research, Volume 4 Support Functions as Business Partners, March 1999.



Chapter 3: What we Learned: Conclusions

Our goal for this study is to identify better practices and innovative approaches of municipal controller functions that are similar to the City of Houston Controller. We learned a great deal about the respective cities in terms of how they operate on a day-to-day basis, but more importantly, we learned that the differences are vast between the survey respondents and the City of Houston Controller. Therefore, our conclusions highlight what we learned about the characteristics of comparable organizations and the potential hurdles the City of Houston Controller may experience on the road to becoming a business partner.

Key Findings

Based on the survey data and research of the respondent cities, our primary finding concludes that becoming a true business partner is the best course of action for the City of Houston Controller. Therefore, we believe to accomplish this will require a departure from the activities traditionally thought of as the core of the controller's responsibilities, such as managing accounting operations, implementing effective business controls and reporting, and a shift toward the activities of business partnering such as decision support, improvement initiatives and business leadership.⁹ To be sure, we are not suggesting that the Controller should abandon these core activities; rather, we believe that the Controller should expand its role to complement those core responsibilities.

The following summarizes our conclusions which describe the impediments and other factors that may influence the City of Houston Controller in becoming a municipal controller/audit organization that behaves and approaches its work like a business partner.

- The City of Houston Controller has a narrower scope of designated responsibilities and overall influence in comparison to the elected controller/audit officials in the survey.
- Term limitations interfere with becoming a business partner.
- The municipal controllers of the respondent cities are doing interesting work that influences the business environment and how citizens live.
- Fundamental changes in thinking and behavior are required to advance to a business partner.
- There is no fundamental difference between elected and non-elected officials.

What the City of Houston Controller can Learn

The City of Houston Controller has a narrower scope of designated responsibilities and overall influence in comparison to the elected controller/audit officials in the survey.

Despite the relative size of the City of Houston when compared to the respondent cities, the City of Houston Controller does not have the breadth of responsibilities when compared to survey respondents that are elected officials. For example, the city of Pittsburgh Controller is leading the integration of all accounting systems across the city. The New York Comptroller has broad influence over innovative programs and shares accountability for departments with the Mayor; and the St. Louis Comptroller is responsible for *all* financial and auditing functions for the entire city.

⁹ Gunn Partners, excerpt from research report, *The Controller's Good Intention*, 2002.



Term limitations interfere with the City of Houston Controller becoming a business partner.

We believe that term limitations and the comparatively short term of two years for the City of Houston Controller is a major impediment to developing a business partner-oriented function. To establish common goals, create shared accountability and develop complementary capabilities requires a significant investment in time. Therefore, we believe that revisiting term limits would provide the starting point for meaningful collaboration between the Controller, the Mayor, City departments and City Council. For those cities where term limits apply to the Controller position, the *shortest tenure is eight years* and for some elected officials there is no term limit. While we do not take a position on what the length of a term should be, we do believe that the 2-year election cycle prohibits the City of Houston Controller from building a long-standing culture of business partnership in comparison to other municipal controller/audit organizations.

The municipal controllers of the respondent cities are doing interesting work that influences the business environment and how citizens live.

The survey respondents demonstrate that the municipal controller can bring innovation and thought leadership to the role through insightful analysis and interesting projects. For instance, the San Francisco City Controller has implemented a performance management group whose purpose is to enable City departments to measure, manage and improve their services, and to provide a basis for sound policy decisions. The Division's staff works with departments to develop meaningful performance measures and tracking mechanisms. The City of Pittsburgh Controller is conducting performance audits in the following areas: litter control practices; parking tax collection practices; cost comparison for road paving: city vs. private contractors; fire fighter protective clothing; and the "weed and seed" program. In addition, the New York Comptroller conducted a study entitled, NYC Software/IT Industry: How NYC Can Compete More Effectively in Information Technology.

The City of Houston Controller favorably compares to other cities and has aggressively pursued innovation to improve efficiencies and by making it easier for investors and vendors to transact business. For example, Internet bidding for municipal bonds was implemented in 2000; this process eliminates the City's need to print and mail offering documents, which is a costly and time consuming process. The auction system allows buyers to bid against each other on an electronic platform in a process that bidding participants can observe. The bidding process is observable by the issuer, which ensures the integrity of the auction and can reveal information as to the market's appetite for the issue. In addition, the City of Houston Controller has created the vendor liaison program that provides direct customer support to vendors who may experience trouble with payment and related issues. Similar to other survey respondents with innovative programs, these innovations by the City of Houston Controller are not one-time events but systemic improvements to create value for investors and vendors that make it easier to transact business with the City. The challenge for the City Controller will be to expand beyond its office to implement citywide initiatives that drive incremental improvements in efficiencies.

Fundamental changes in thinking and behavior are required to advance to become a business partner.

The strong mayor form of government and the popular election of both the City Controller and Mayor for the City of Houston contribute to the adversarial nature between these offices. For example, the language used in the City of Houston Controller's Website that describes the relationship between the Controller and the Mayor does not connote a relationship that promotes a partnership. Conversely, the Mayor's office has an even more important part in setting the tone for a broader relationship as the chief executive of the City of Houston. As an example, the Mayor can initiate this by using the core skills of the Controller to provide independent assessment of programs that examine governance and accountability. Changing the thinking and attendant behaviors of the Mayor and City of Houston Controller provides a catalyst for systemic change to establish an effective business partnership. We believe the City of Houston Controller and Mayor can accomplish a solid partnership by focusing on the extent to which the leadership of the respective organizations promotes a partnering spirit through inclusion and participation, rather than exclusion and non-participation in key decisions and activities.



There is no fundamental difference between elected and non-elected officials.

Overall, the difference between elected and non-elected officials is not significant. The data from our survey does not support a more favorable or less favorable mode of operation as an elected or non-elected official under which to execute the day-to-day activities of a municipal controller. Organizational structure and form of government do not lead to any particular pattern. The only discernible difference between the elected and non-elected officials is that non-elected officials tend to spend more on technology than elected officials, according to the survey results.

Conclusion

Some of the impediments will require action by City Council and potentially a ballot measure to reevaluate term limits for the City of Houston office holders. However, to promote fully the concept of business partnership as a viable approach to delivering value-added services will require a systematic cultural renewal that focuses on business performance and innovation. To accomplish this, barriers that have been created over the years will have to be challenged and in some cases eliminated. The opportunity for municipal controller/audit organizations to do interesting and relevant work is evident by the survey respondents. The City of Houston Controller must now determine the most favorable pathway to becoming an organization that operates as a business partner to serve its stakeholders across the City of Houston.



Appendix – Full Survey Results

QUESTION	NYC	GHI	HOU	PHIL	PHX	DAL	SAN	DET	SFO	STL	PITT
2000 Population	8,008,278	2,896,016	1,953,631	1,517,550	1,321,045	1,188,580	1,144,646	951,270	776,733	348,189	334,563
Number of public employees	306,000	42,213	23,196	29,600	12,165	13,446	14,968	20,990	27,189	7,530	3,983
2002 Total Budget	\$39,698,060,747	\$4,602,000,000	\$2,500,000,000	\$2,830,000,000	\$2,329,283,000	\$1,461,794,007	\$1,057,069,717	\$3,382,789,000	\$5,200,000,000	\$739,600,000	\$397,334,707
2002 General Fund Budget	\$39,698,060,747	\$2,528,000,000	\$1,452,180,584	\$2,133,000,000	\$1,188,197,000	\$814,716,268	\$1,057,069,717	\$1,933,226,246	\$1,400,000,000	\$403,329,317	\$364,672,304
1. Is your office holder an elected or appointed official?	Elected	Appointed	Elected	Elected	Appointed	Appointed	Appointed	Appointed	Appointed	Elected	Elected
2. If appointed, who makes the appointment?	N/A	Mayor	N/A	N/A	Finance Director	City Mgr.	Finance Dir.	Mayor	Mayor	N/A	N/A
3. What is the length of a single term in office? (if applicable)	4 years	N/A	2 years	4 years	N/A	N/A	Civil Service Position	10 years	10 years	4 years	4 years
4. Is your office holder subject to term limits?	Yes	No	Yes	No	No	No	No	No	No	No	No
5. What is the maximum number of terms allowed? (if applicable)	2 terms	N/A	3	N/A	N/A	N/A	N/A	No limit	N/A	N/A	N/A
6. Approximately how many full time staffers does your office employ?	More than 145 (735)	More than 145 (226)	86-100 (93)	131-145 (138)	55-70 (63)	Less than 50 (45)	116-130 (123)	More than 145 (554) Dept. of Finance; 26 in Auditor General	More than 145 (150)	86 to 100 (93)	71-85 (78)
7. What is the approximate annual turnover rate of the full time staff?	0 to 3 percent	No Answer Provided	8 to 11 percent	Don't Know	4 to 7 percent	0 to 3 percent	Don't Know	4 to 7 percent	More than 11 percent	8 to 11 percent	0 to 3 percent
8. What is the average tenure for supervisory (managers, executive staff, etc.) level staff?	No Answer Provided	No Answer Provided	9 to 11 years	More than 11 years	9 to 11 years	9 to 11 years	More than 11 years	9 to 11 years	6 to 8 years	9 to 11 years	9 to 11 years
9. Please list any non-financial incentives your office employs to assist in retaining staff. (For example: tuition reimbursement, flexible work schedules, job rotation, etc.)	No Answer Provided	Tuition reimbursement and training	Quality of life committee, training for certifications	No Answer Provided	Flexible work schedule, tuition reimbursement, language program, free bus cards, Emergency ride program. Counseling, sick child care	No Answer Provided	Tuition reimbursement, pay incentive for professional Certification, CPE, Leadership Development, professional memberships	Tuition reimbursement and flextime	Flexible Schedules, Employee development allowance of \$500 beyond those is required, Job rotation, awards ceremonies	Tuition reimbursement	Job security, low pressure work environment,



QUESTION	NYC	CHI	HOU	PHIL	PHX	DAL	SA	DET	SF	STL	PITT
10. Preparation of the Comprehensive Annual Financial Report	Part in-house/outsource	Accountability; work is outsourced	All in-house	No Answer Provided	All-in house	All in-house	All in-house	All in-house	All in-house	Part in-house/outsource	All in-house
11. Preparation of the monthly or quarterly reports	N/A	No Answer Provided	All in-house	No Answer Provided	All-in house	All in-house	All in-house	No Answer Provided	All in-house	All in-house	No Answer Provided
12. Financial related audits of city departments	All in-house	No Answer Provided	Part in-house/Part outsource	Part in-house/outsource	No Responsibility	No Responsibility	No Responsibility	No Answer Provided	No Responsibility	Part in-house/outsource	All in-house
13. Performance audits of city departments	All in-house	No Answer Provided	No Responsibility	Part in-house/outsource	No Responsibility	No Responsibility	No Answer Provided	Part in-house/outsource	No Answer Provided	Part in-house/outsource	All in-house
14. Pre-audit of city disbursements	No Response	No Answer Provided	All in-house	All in-house	All in-house	All in-house	All in-house	All in-house	All in-house	All in-house	All in-house
15. Certification of availability of city funds before the funds are committed	All in-house	No Answer Provided	All in-house	No Responsibility	No Responsibility	Rev. by Treasury	All in-house	All in-house	All in-house	All in-house	No Answer Provided
16. Forecasting of city revenues	All in-house	No Answer Provided	All in-house	No Responsibility	No Responsibility	No Responsibility	All in-house	All in-house	All in-house	No Responsibility	No Responsibility
17. Forecasting of city expenditures	All in-house	No Answer Provided	All in-house	No Responsibility	No Responsibility	No Answer Provided	No Answer Provided	All in-house	No Answer Provided	All in-house	No Responsibility
18. Management of the City's investment portfolio	Part in-house/outsource	No Answer Provided	All in-house	No Responsibility	No Responsibility	No Responsibility	All in-house	All in-house	All in-house	No Answer Provided	No Responsibility
19. Treasury management and banking relationship	All in-house	No Answer Provided	All in-house	No Responsibility	No Responsibility	No Responsibility	All in-house	All in-house	All in-house	No Responsibility	No Responsibility
20. Reconciliation of bank accounts	All in-house	No Answer Provided	All in-house	No Responsibility	All in-house	All in-house	All in-house	All in-house	All in-house	All in-house	All in-house
21. Management of bond and/or other debt issuance	All in-house	No Answer Provided	All in-house	No Responsibility	No Responsibility	No Responsibility	All in-house	All in-house	All in-house	Part in-house/outsource	Part in-house/outsource
22. Reporting of debt activity to Mayor and/or City Council	All in-house	No Answer Provided	No Responsibility	No Responsibility	No Responsibility	No Responsibility	All in-house	All in-house	All in-house	All in-house	All in-house
23. Arbitrage rebate compliance and reporting	Accountability but work is outsource	No Answer Provided	Part in-house/Part outsource	No Responsibility	No Responsibility	Part in-house/outsource	Part in-house/Part outsource	Part in-house/outsource	Part in-house/Part outsource	Accountability but work outsourced	No Answer Provided
24. What is the approximate operating budget of your office?	56.5 million	No Answer Provided	\$6.4 million	\$7.5 million	\$5 million	\$4.3 million	\$7.85 million	\$45.1 million	\$7.85 million	\$7.9 million	\$3.163 million
25. Approximately what percentage of the office budget is spent on personnel?	70 percent or more	70 percent or more	70 percent or more	70 percent or more	60 to 69 percent	40 to 49 percent	50 to 59 percent	60-69 percent	50 to 59 percent	50-59 percent	70 percent or more



QUESTION	NYC	CHI	HOU	PHIL	PHX	DAL	SA	DET	SF	STL	PITT
26. Please estimate what percentage of your budget is allocated for technology?	1 to 3 percent	1 to 3 percent	4 to 7 percent	1 to 3 percent	More than 15 percent	More than 15 percent	More than 15 percent	8 to 10 percent	More than 15 percent	1 to 3 percent	4 to 7 percent
27. What is your office' largest budgetary expenditure not related to technology or staff compensation?	Contracts for pension investment mgt.	Professional/ Auditing services	Outsourced audit and accounting contracts	Purchased services	Mailing services and postage	Internally billed for maintenance of accounting and payroll	Fees to professionals	IT services	Fees to professionals	General fund share of non-employee insurance program	Professional development
28. What is the total dollar amount of your City's investment portfolio?	81.6 billion	No Answer Provided	\$2.5 billion	\$7.95 billion	\$2.3 billion	1.2 billion	\$681 million	1 billion	\$681 million	\$475 million	\$114 million
29. Is your office considering the implementation of new technology to improve execution in any of the following areas: (check all that apply)	Analysis, Investment and Debt. Mgt	Fin. Management , Investment and Debt.	Financial Mgt. Package. Investment and Debt Mgt. Package	No Responsibility	No Answer Provided	Other	Financial Mgt., Analysis, Bus. Intell., Reporting, Investment and Debt Mgt., Auditing, Other	Financial Mgt., Business Intelligence, Reporting, Investment & Debt Mgt.	Financial Mgt., Analysis, Bus. Intell., Reporting, Investment and Debt Mgt., Auditing, Other	Financial Mgt.	Reporting
30. If you plan to purchase new technology, please rank each of the following items on a scale of 1 to 10. A rank of 1 means that it is not a concern. A rank of 10 means that it is a major concern.	Cost=8 ROI=5 Staff Skills= 6 Failure to meet expectations= 6 Proj. Mgt= 6	No Answer Provided	Cost=8 ROI=7 Staff Skills= 2 Failure to meet expectations= 4 Proj. Mgt= 3	No Responsibility	No Answer Provided	Cost=10 ROI=8 Staff Skills=8 Failure to meet expectations= 10 Proj. Mgt=10	Cost=4 ROI=7 Staff Skills=7 Failure to meet expectations=4	Cost=10 ROI=9 Staff Skills=2 Failure to meet expectations=7 Proj. Mgt=1	Cost=4 ROI=7 Staff Skills=7 Failure to meet expectations=4	Cost=10 ROI=5 Staff Skills=6 Failure to meet expectations=5 Proj. Mgt= 9	Cost=9 ROI=1 Staff Skills= 5 Failure to meet expectations=6 Proj. Mgt=7
31. What is the number of active depository bank accounts you maintain?	No Answer Provided	No Answer Provided	21	N/A	45 separate accounts all combined into one analysis account	19	4	170	4	8	6
32. How many active disbursement bank accounts do you maintain?	No Responsibility	No Answer Provided	2	N/A	2	4	15	No Answer Provided	15	5	15
33. With respect to GASB 34, did your city elect early implementation?	Yes	No	No	No	No	No	No	No	No	No	No



QUESTION	NYC	CHI	HOU	PHIL	PHX	DAL	SA	DET	SF	STL	PITT
34. If you answered yes, did you include retroactive capitalization of infrastructure?	Yes	Yes	N/A	N/A	No Answer Provided	N/A	N/A	N/A	N/A	No Answer Provided	No Responsibility
35. If an outside money manager is used, are they required to invest funds in accordance to the same city investment policy governing city operated investments?	Yes	No Answer Provided	N/A	Yes	No Answer Provided	No Responsibility	Yes	Yes	Yes	Yes	Yes
36. Is your office permitted by charter, ordinance or otherwise to perform performance audits of other city departments?	Yes	No Answer Provided	Yes	Yes	No	No	No	No	No	Yes	Yes
37. If you answered "YES" to #36, how many performance audits does your office perform in a typical year?	More than 15	No Answer Provided	None	None	No Answer Provided	N/A	N/A	N/A	N/A	More than 15	6 to 10
38. How long from the fiscal year end date does it take to distribute the Comprehensive Annual Financial Report (CAFR)?	4 to 5 months	5 to 6 months	5 to 6 months	5 to 6 months	5 to 6 months	Longer than 6 months	3 to 4 months	5 to 6 months	3 to 4 months	5 to 6 months	5 to 6 months
39. How many full time staffers are required to produce the CAFR?	30 or more	15-20	15 to 20	5 to 15	5 to 15 months	5 to 15	30 or more	5 to 15	30 or more	5 to 15	5 to 15
40. How long does it take to publish the Monthly Financial Report?	N/A	N/A	3 to 4 weeks	No Answer Provided	3 to 4 weeks	No monthly financial rpts are produced	3 to 4 weeks	No Answer Provided	3 to 4 weeks	1 to 2 weeks	N/A
41. Do recipients of the MFR and other reports have a choice in how they prefer to receive information from your office?	N/A	N/A	Yes	No Answer Provided	No	In process of developing downloadable version	No	No Answer Provided	No	No	No Responsibility



QUESTION	NYC	CHI	HOU	PHIL	PHX	DAL	SA	DET	SF	STL	PITT
42. Do monthly and quarterly reports include forecasts of expenses and revenues or just historical amounts?	Include revenue and expense forecasts	Include revenue and expense	Include revenue and expense forecasts	Include revenue and expense forecasts	Include revenue/expense forecast	N/A	Historical Amounts only	No Answer Provided	Historical Amounts only	Historical amounts only	No Answer Provided
43. Do you use the Association of Investment Management & Research presentation standards as the basis for reporting investment returns?	No Answer Provided	No Answer Provided	Yes	No	No	N/A	No	No	No	No	No
44. Within what degree of accuracy were annual general fund revenues forecast in the most recent year for which audited financials are available?	Revenues were within 1 percent	No Answer Provided	Actual revenues were within 1 percent of forecasts	Revenue exceeded by more than 3 percent	Actual revenues exceeded forecasts by more than 3 percent	N/A	Actual revenues exceeded forecasts by more than 3 percent	Actual revenues were less than forecast by more than 3 percent	Actual revenues exceeded forecasts by more than 3 percent	Actual revenues exceeded forecast by more than 2 percent but less than 3 percent	Revenues were less than forecast by more than 2 percent but less than 3
45. How far in advance of the fiscal year, are the forecasts made?	5 year plan	No Answer Provided	2 months	8 months	Revenues forecasts are projected out 5 years with continual updates	N/A	1 year. Also prepare 5 year financial revenue forecast	1 month	1 year. Also prepare 5 year financial revenue forecast	6 months	1 year
46. Approximately what percent of city vendors receive electronic funds transfer (EFT) payments?	Less than 10 percent	No Answer Provided	Less than 10 percent	21 to 30 percent	Less than 10 percent	Less than 10 percent	Less than 10 percent	11 to 20 percent	Less than 10 percent	Less than 10 percent	Less than 10 percent
47. Does the City review (in some form) all transactions that generate a check regardless of amount?	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes



Appendix – Survey Results for Waste, Fraud & Abuse

QUESTION	NYC	CHI	HOU	PHIL	PHX	DAL	SAN	DET	SFO	STL	PITT
1. Does your office include an internal audit staff?	No Answer Provided	No Answer Provided	Yes	No	No – Another city office	No	Yes	No Answer Provided	Yes	Yes	No Answer Provided
2. Does your office have a telephone hotline dedicated to anonymous reporting of allegations of waste, fraud or abuse?	No Answer Provided	No Answer Provided	Yes	No	No – Another city office	No	No	No Answer Provided	No	No	No Answer Provided
3. Does your office have an online mechanism in place for anonymous reporting of allegations of waste, fraud or abuse?	No Answer Provided	No Answer Provided	Yes	No	No – Another city office	No	Yes	No Answer Provided	No	No	No Answer Provided
4. Does your office employ certified fraud examiners or other specialists to help prevent and detect waste, fraud and abuse?	No Answer Provided	No Answer Provided	Yes	No	No – Another city office	No	Yes	No Answer Provided	No	Yes	No Answer Provided
5. Is training provided to office staff in helping in the prevention and detection of waste, fraud and abuse?	No Answer Provided	No Answer Provided	Yes	No	Yes	No	Yes	No Answer Provided	Yes	Yes	No Answer Provided
6. Does your staff utilize computer assisted audit techniques to help detect irregularities, misappropriations, duplicate payments or conflicts of interest?	No Answer Provided	No Answer Provided	Yes	No	Yes	No	Yes; in process of purchasing	No Answer Provided	Yes	Yes	No Answer Provided



QUESTION	NYC	CHI	HOU	PHIL	PHX	DAL	SAN	DET	SFO	STL	PITT
7. Does your office engage in follow-up reviews of the status of implementation of recommendations made in previous reviews?	No Answer Provided	No Answer Provided	Yes	Yes	Yes	Yes	Yes	No Answer Provided	Yes	Yes	No Answer Provided
8. Does your office participate with federal, state, or local law enforcement authorities when appropriate on criminal investigations of city employees, vendors, etc.?	No Answer Provided	No Answer Provided	Yes	Yes	Yes	Yes	Yes	No Answer Provided	Yes	Yes	No Answer Provided