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2010 Innovations Awards Application

DEADLINE EXTENDED: MARCH 15, 2010

ID # (assigned by CSG): **10-E-18PA**

Please provide the following information, adding space as necessary:

State: Pennsylvania

Assign Program Category (applicant): Administration

1. Program Name

Finance Transformation

2. Administering Agency

Executive Offices - Office of the Budget (Comptroller Operations)

3. Contact Person (Name and Title)

Anna Maria Kiehl, Chief Accounting Officer

4. Address

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9. Please provide a two-sentence description of the program.

Through Finance Transformation, Pennsylvania's Office of the Budget eliminated the 600,000 paperwork transactions that had been involved in receiving and paying the commonwealth's bills and paved the way for a process that is now virtually all electronic.

10. How long has this program been operational (month and year)? Note: the program must be between 9 months and 5 years old on March 1, 2010 to be considered.

Finance Transformation was implemented in April and May of 2009.

11. Why was the program created? What problem[s] or issue[s] was it designed to address?

The program was created to enable the Office of the Budget to operate *faster, better, cheaper*. The existing commonwealth accounts payable process was costly and time-consuming because of the amount of manual effort involved and the need to send paper documents across physical distances – including, at times, the entire state. The process involved mailing hard copies of invoices throughout the state, reviewing paper documents prior to payment, making multiple copies to provide to the Treasury department for payment, scanning, and then filing a hard copy in our office. There was limited visibility of the invoice throughout the payment process, late payments were incurred periodically,, and as many as six offices were receiving invoices from the same suppliers doing business with different One major goal of the Finance Transformation program was to eliminate as much paper as possible, to eliminate redundant scanning, and to use electronic means wherever possible to send and store documents, thus saving costs associated with personnel time, storage space, paper, toner, postage, and courier services.

The program was designed to address inconsistent processes and procedures, as well as, inconsistent levels of customer service provided to commonwealth agencies, vendors, and taxpayers. Before Finance Transformation, each comptroller office in the Office of the Budget had its own standards and requirements and each provided a different level of service. For example, some offices prepared revenue documents on behalf of the agency while other offices required the agency to prepare the revenue documents and send them to the comptroller’s office for review and approval. Some offices required signatures on documents and others did not.

The program was also designed to enable the Office of the Budget to strategically align resources around key business functions, analyze resource availability, prioritize responsibilities and projects to provide the resources needed to ensure an efficient and effective program. A perfect example of why this is so crucial is in the areas of internal audits and the payables function. The office needed a more focused, centrally-controlled quality assurance function and risk-based approach to internal audits. By functionally restructuring the staff, as opposed to being structured around type of agency served, and by pooling resources, we have taken advantage of increased organizational capacity. The program has also enabled the commonwealth to develop a state-wide, risk-based approach to audits and transactions processed through the central ERP system. The program’s former organizational design and approach to audits, both transaction-based; such as, procurement and payable document reviews, and internal financial and performance audits needed an enterprise-wide, risk-based approach to effectively and efficiently meet business requirements.

12. Describe the specific activities and operations of the program in chronological order.

April 2009

- Five Comptroller Offices were consolidated and combined with two bureaus and collocated with their business partners in a central location in Harrisburg
- Initialization of a new vendor call center to serve as a single point of contact for vendor registrations and inquiries
- Initialization of a new Training & Workforce Development Office to provide financial training to all commonwealth staff
- Training for staff on new procedures

May 2009

- Implemented a new vendor invoicing process where invoices are received centrally in four post office boxes, opened, prepare and scanned within 24 hours of receipt to facilitate full visibility of the invoice life cycle from receipt to payment.
- Implemented workflow technology to eliminate passing invoice documents across the state between agency and Office of the Budget staff to expedite the payment process and enable the automatic tracking of workflow approvals and pre-population of accounting documents to eliminate manual entry.
- Standardized business processes, policies and developed new procedures in the areas of accounting, audits and payables

June 2009

- Implemented electronic invoicing (EDI) with PPL and PECO utility companies to eliminate more than 18,000 manually-processed invoices a year
- Implemented Image Capture Letter and a decentralized revenue entry process to expedite the recognition and deposit of revenue, and developed new procedures requiring less printing of certain types of revenue documents
- Implemented a central Quality Assurance function to ensure continuous process improvements, performance measures, accounting system controls, and continuous control monitoring of transactions flowing through the accounting system.

June 2009 – March 2010

- Staffing levels have been reduced by 10% since the program went into effect in April/May 2009, and we continue to do more in the area of Stimulus fund payables, accounting and reporting.
- Continuous process improvements in accounting, payables, and audits.

13. Why is the program a new and creative approach or method?

Imaging technologies are emerging in many states, but the integration of invoice imaging with workflow (passing information electronically based on rules and required approvals) in an ERP accounting system is not widely used in state governments in an integrated, procure to pay process. Such integration involves drastic changes in technology, a complete restructuring of more than 500 staff according to functions and duties, and modifications to policy and procedures. Pennsylvania successfully tackled these enormous changes at the same time – instead of making the changes one at a time, as other organizations might have done. This approach required significant coordination with consultants, business partners, elected offices, commonwealth suppliers, and IT support staff.

14. What were the program’s start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

Initial costs for implementation were \$7.9 million, which included costs associated with consulting services, SAP system configuration, new imaging technology, the relocation of staff, furnishing of new space and equipment, and incidental fees such as postal service cost services. Five existing staff members were full-time employees on the implementation team, with approximately fifteen additional staff assisting part-time.

15. What are the program’s annual operational costs?

The Finance Transformation’s annual operational costs are approximately \$9.6 million.

16. How is the program funded?

The program is funded by a combination of appropriated money and augmentations. Augmentations are monies collected as a result of billings to state agencies for financial and audit services provided by the Office of the Budget.

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

No passage of legislation, executive orders or regulations was required. All state agencies under the Governor’s jurisdiction were in scope for this program and the governance structure consisted of key executive leadership.

18. What equipment, technology and software are used to operate and administer this program?

- Dual computer monitors for more than 100 accounts payable staff
- DocFinity imaging software and server space for document storage
- Electronic workflow within the SAP accounting system
- Scanners to image contract documents
- ACD Phone system for use by the call center

19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number and e-mail address.

Yes, it was initiated by former Pennsylvania Budget Secretary Michael J. Masch (contact information unknown).

20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

No

21. Has the program been fully implemented? If NO, what actions remain to be taken?

The largest part of the program was implemented in May 2009 with process improvements, technology upgrades and enhancements, and the physical consolidation and reorganization of 535 staff members. The staff members were reorganized according to like functions and duties and relocated. The commonwealth invoice process and procedures were changed to include the use of state of the art imaging and workflow technologies. And, the Office of the Budget is continually assessing operations to identify efficiencies, standardization opportunities, and enhanced use of technology as part of the program. We are expanding EDI capabilities to include four additional utility providers and will continue to add suppliers as resources become available. The current economic conditions have forced Pennsylvania's government to seek out ways to save time and money. Each of the time- and cost-saving efforts under way in the Office of the Budget are deemed to be part of this program.

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

Faster The functionalizing and reorganization of five separate comptroller offices and two bureaus into one office allowed the organization to streamline procedures such as processing invoices rejected by the Treasury Department, supplementing financial reports with footnotes, and developing a standard checklist for review of contracts and purchase orders. Also, utilizing technology such as electronic invoicing has saved the commonwealth processing time for more than 18,000 utility invoices (cost savings of \$216,000 annually) that now come to us for payment in a file and are paid via Automated Clearing House (ACH). Prior to the Finance Transformation program, Pennsylvania received and processed thousands of paper invoices from utility companies such as PPL and PECO. One aspect of the program that has yet to achieve peak efficiency is the set of tasks now required of agency invoice processing staff. In order to reach peak efficiency we plan to partner with the Department of General Services to provide additional training for new staff to learn to use the new technology and better understand their part in helping the Commonwealth earn prompt payment discounts. .

Better The new quality assurance function has been key to making the shift to a risk-based approach to transaction based audits and state-wide internal audits. We are spending much less time on small dollar-low risk transactions and audits and more time addressing more significant risks and concerns. We've standardized the financial reporting process and raised the availability and visibility of supplier invoices for all agency managers, standardized policy, invoice audit procedures, and revenue processing to gain efficiencies in all aspects of payables, accounting, and audit functions. . Combining five offices and two bureaus enabled the Office of Budget to adopt best practices in order to achieve the most valuable and efficient means of doing business.

Cheaper Since the program was implemented, we have reduced our filled complement by 10 percent, reduced overtime costs by 62 percent (\$345,948 saved in fiscal year 2009) and reduced travel costs by 59 percent (\$378,171 saved in fiscal year 2009). The implementation of new invoice processing procedures, which included standardization and enhanced technologies, has reduced the payable processing costs by \$638,000 in ten months, with an annual projected savings of \$750K annually.. All of these cost-saving efforts combined have allowed the Office of the Budget to continue to provide the required level of service to our customers and partners even during these difficult economic times, when organizations are forced to do more with less. This program has positioned the Commonwealth to continue to do more and more with less to meet the challenges of the current economic state of affairs.

23. How has the program grown and/or changed since its inception?

Since May 2009 Finance Transformation has transitioned its primary focus from improving manual processes within the payables and revenue areas to other areas of the Office of the Budget. These include:

- Additional consolidations and transfer of functions within the Bureau of Accounting to streamline functions, standardize reporting and expectations, and eliminate redundancy.
- A newly-formed state-wide Audit committee consisting of key executive level support for the audit planning process and an evolving risk-based approach to the deployment of audit resources to address new system development controls, ARRA Risk assessment and audit requirements, and mandated audits
- The maturing of the new Quality Assurance function to include a post audit risk criteria sampling technique for reviewing certain transactions, development of performance measures and tracking of program measures to the program's budget, goals and objectives to ensure proper assignment of resources and continuous process improvements.

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

The biggest obstacles in adopting a program similar to Finance Transformation are as follows:

- Funding for new technology such as ERP system upgrades and enhancements, imaging and workflow processes
- Internal resources to devote to developing business requirements, assessing the organization's readiness for change, planning for the changes, training all parties to the process, communications across agencies, and executing process improvements.
- Planning and Coordination of the movement and reclassification of staff
- Staff resistance to change

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2010 Innovations Awards Application Program Categories and Subcategories

Use these as guidelines to determine the appropriate Program Category for your state's submission and list that program category on page one of this application. Choose only one.

Infrastructure and Economic Development

- Business/Commerce
- Economic Development
- Transportation

Government Operations and Technology

- Administration
- Elections
- Information Systems
- Public Information
- Revenue
- Telecommunications

Health & Human Services

- Aging
- Children & Families
- Health Services
- Housing
- Human Services

- Education
- Labor
- Management
- Personnel
- Training and Development
- Workforce Development

Natural Resources

- Agriculture
- Energy
- Environment
- Environmental Protection
- Natural Resources
- Parks & Recreation
- Water Resources

Public Safety/Corrections

- Corrections
- Courts
- Criminal Justice
- Drugs
- Emergency Management
- Public Safety

Human Resources/Education

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This application is also available at www.csg.org.