Conceptual Approach to Aligning Financial Resources to the New IST Organizational Structure

BACKGROUND

In early 2006, the Office of the CIO (OCIO) and Information Services and Technology (IST) senior leadership embarked on a major restructure of IST, basing the new organizational structure on a services model. The new, “One IST” moved the organization from 9 departments to 4 and vested new, specific functions in OCIO. The re-structure became effective July 18, 2006, and a number of staff members’ roles were substantially changed by the re-structure as new units were formed in the departments, based on the services model. As a result, the financial allocations and carry forwards for fiscal year 06 – 07 were not in alignment with the new One IST and OCIO organizational reality.

At the same time that IST/OCIO has been undergoing this organizational change, the campus Budget Office and senior management have initiated a new budgeting model founded on the concept of activity-based costing. This model compliments IST’s services-based organizational approach. Given that IST/OCIO must realign its finances to the new organizational structure, IST/OCIO has become an early adopter of the activity based costing model as part of the effort to develop new unit budgets.

This document provides an overview of both the approach and the process involved in aligning IST financial resources with our new organizational structure. A separate but somewhat similar process will be used in OCIO. The goal is for the IST financial alignment to be in place in the spring of 2008.

PREPARATION STEPS

We have a campus mandate and fiscal close requirement to balance all non-recharge funds. The DBOs and the Financial Team worked together to eliminate deficits by redistributing funding across departments as appropriate in order to clear all non-recharge chart string deficits in all departments. The approach this year to this clearing activity was an organization wide approach. This uncommon occurrence was in response to the reorganization, the interim charging protocol, the clearing of project codes and flex codes that are no longer needed so they can be retired, and the number of actions that had to take place in response to the approval of the salary plan. A record of all cross-organization budget journals for 06 – 07 fiscal year close is available for review by directors, DBOs and Level 2 managers on the Deputy CIO CalShare site in file named “FY07 IST Temporary Budget Journals”. Because there over 450 line entries involving the old IST organizational structure, if there is a question regarding a specific transfer, then the department’s Departmental Budget Officer (DBO) or Budgetary Planning and Financial Analysis (BPFA) in the Office of the Deputy CIO should be contacted for a detailed explanation.

For initiatives begun in the 06 - 07 fiscal year where expenses were recorded in the ledger but the department did not have the funding to cover the expense, funding transfers across IST were made as part of the fiscal close cleanup process covering all actual expenses, but not encumbrances (known as pending commitments). This process was communicated to the DBOs who then reviewed and updated their
departmental costing templates to include the encumbrances as one time costs, if the encumbrance had not previously been included. Capital lease encumbrances, both hardware and software, are captured as separate line items on the costing templates for 07-08 for the full amount remaining on the lease, regardless of the number of years remaining. All other encumbrances are listed as one time costs. For example, software purchased in FY06-07 but not yet invoiced, would show on the ledger as an encumbrance. That encumbrance would then be listed on the costing template as a one time cost.

ALIGNMENT PROCESS

Normally, at fiscal close if a department has funding remaining, the funding is carried forward into the new fiscal year and the department retains the funding allocations that are made effective July 1. This year, the campus automated processes carry forward any unexpended balances in the chart strings where they resided at year end as usual. But, the need to realign IST finances means that we will manually transfer all non-recharge and non-contract and grant funding, except for salary funding, out of department Org Ids and into a Deputy CIO Org ID (hereafter referred to as the divisional “bank account”) until the total costing plan is reviewed and approved. Salary funding will remain within the departments, including the department salary pool as defined in the IST Salary Plan. The salary pool can be seen on the ledger in the department’s generic Org Id. The salary plan and pools for each department have been reconciled and signed off by both the DBOs and the Directors. Moving forward, it will be the responsibility of the department to manage their salary pools.

What this means is that as we begin fiscal year 07 – 08, temporary, non-salary carry forward funding will be recorded in IST departments, but it will not be retained by IST departments; rather it will be transferred to a Deputy CIO divisional “bank account.” The funding will be redistributed later in the year based on the total costing commitments identified in the costing templates. It is critical that L2’s ensure that firm commitments, which are referred to as “initiatives” in the costing template, are accounted for since units cannot assume carry forwards can be used to fund such initiatives (fully or partially). IST requires that new initiatives be recorded in the project portfolio management system and the project number identified with the initiative entered on the costing template.

FTE Assignments

The next step in the total costing process is the analysis to examine all organizational FTE assignments and, with the L2s and DBOs, to break out FTE into categories based on the actual FTE effort in the new organizational structure.

At the end of July, Ann Walls, Angela Chang and Michelle Kresch began holding meetings with L2s and DBOs to review all FTE in each Org ID under the management. L2’s then reviewed the actual work effort of staff along with the percentage required for those staff supporting multiple activities. The resulting documentation from the FTE analysis will be given to the IST directors and OCIO for review and approval, from both a financial resources perspective and a conceptual perspective. IST and OCIO have drafted a “Recharge Philosophy” document that will
be put to the test in making organizational decisions about what efforts are overhead and which ones should be directly charged to a recharge or a non-recharge funding source. Once the FTE analysis is vetted and accepted or adjusted, HRMS entries will be made to true up all FTE distributions and the corresponding PRT actions will take place, along with transfer of the in-year temporary salary funding.

Our intent is that once activity-based workload monitoring (time tracking, incident tracking, etc.) is done throughout IST, we will do a data sampling to determine if the recharge FTE distributions are reflective of the actual work attributable to the recharge activities. The sampling activity will not occur until FY 08-09, but is a process the campus has indicated must take place on a regular basis to provide reports that substantiate the FTE distribution assignments.

**Non-salary Analysis**

The non-salary costing process analysis will involve looking at all remaining available funding and assessing that pool against the commitments identified in the costing templates. This analysis will form the basis of the funding allocation plan that will be submitted to the Director team in the fall of 2007. The analysis includes matching campus funding earmarked to support specific activities, such as BAI, to the corresponding commitments in the costing templates. These campus earmarked activities are allocated to the Org ID level with newly established IZ project codes, when they involve more than one IST department. Due to ever-changing technology, IST expenditure run rates change over time, decreasing in some areas and increasing in others. The analysis of costs to earmarked funding will be provided to the CIO for consultations with campus senior management and decisions on how the campus earmarked funding will be allocated moving forward.

As part of this process, it may be determined there is insufficient funding to cover all the expenses identified in the FTE assignment and non-salary costing. The Director Team will then review the identified commitments to determine where cost savings can be achieved. As an example, it may be determined the default value for entertainment or miscellaneous expenses should be reduced. Decisions will be made based on the programmatic needs and mission of IST and the campus.

**MONITORING EXPENSES TO BUDGETS DURING THE ALIGNMENT PERIOD**

During the period between the temporary transfer of all non-salary, non-recharge funding into the Deputy CIO bank account and the review and approval of the funding allocation plan, (and respective reallocation of funding at the org ID level projected to take place in Spring 08), Level 2 managers should be monitoring their monthly expenses and comparing their actuals to the projected commitments identified in the non-salary costing templates. We expect the actuals to closely track to the identified commitments. However, there may be unexpected and unplanned expenses that occur. Level 2 managers should monitor these unplanned expenses and keep their Director apprised of the need and justification for the expense. Directors will then discuss the unplanned expenses with the full Director Team and advise the Finance Team if there is an impact to the funding allocation plan.
IN CONCLUSION

For this fiscal year, IST Departments cannot use the non-salary plan July 1 carry forward funding as a means of developing a “funding pool” for future unidentified commitments or to cover start up costs of new initiatives. This one time event of placing all funding into a Deputy CIO “bank account” is necessary to ensure funding is adequately and appropriately reallocated to meet existing commitments throughout the division and to align IST finances with the new organizational structure.