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Show Me the Money! Enhancing Management Reporting Capabilities Through Leveraging of the Current Financial Reporting System

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Show me the money!
**Enhancing management reporting
capabilities through leveraging of the current
financial reporting system**



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Problem Statement:

The South Carolina State Housing Finance and Development Authority (SC Housing) is a self-sustaining agency committed to ensuring that South Carolinians have the opportunity to live in safe, decent, and affordable housing. SC Housing operations are supported by a funding base that includes fees and other revenue earned through the administration of agency programs.

SC Housing exists to provide affordable housing opportunities to the citizens of South Carolina. The organizational structure of SC Housing includes several Program Areas that provide direct services to South Carolinians:

- Development oversees a number of programs that support the construction, financing, rehabilitation and repair of housing for low-income households across SC, including administration of the federal Low-Income Housing Tax Credit (LIHTC), SC State Housing Tax Credit, Small Rental Development Program (SRDP), SC Housing Trust Fund, National Housing Trust Fund, and HOME Investment Partnership Program.
- Rental Assistance and Compliance includes three areas: Program Compliance, Housing Choice Voucher (HCV) and Contract Administration. Program Compliance is responsible for monitoring Low-Income Housing Tax Credit, Tax-Exempt Bond (TEB), HOME and Housing Trust Fund. HCV Program operates in 7 counties that do not have a local participating public housing authority. Contract

Administration monitors a portfolio of 266 Section 8 rental properties across the state on behalf of HUD located in 45 of the 46 counties.

- Home Ownership (Single-Family) provides funds through participating private mortgage lenders to assist low- and moderate-income home buyers with what is often the purchase of their first home.

Each program area produces revenue and requires operational support. Each Program area includes utilization of various indirect support groups integral to the success of the operational areas. Operational support functions include legal, marketing, communication, information technology, human resources, procurement, internal audit, information technology, accounting and finance.

SC Housing operates without direct appropriations from the state. Funding for all programs is received from federal sources except for the Single-Family program. The Single-Family program provides first time homebuyers loans. SC Housing receives fees for the services provided for administration of the program. Many of the revenues and expenses for the Single-Family Program are passthrough, however, operational expenses are not included. Operational expenses are recovered through fees charged to administer the various programs at SC Housing. The fees charged need to be inclusive of all operational expense.

To successfully set fees at a rate adequate to operate the agency, fees must include all agency operational expenses. Only through timely attention to financial details for the various operational areas is it possible for upper management to make accurate and timely decisions for fee-setting. Information currently provided to upper management is not

inclusive enough to ensure the program is not running at a deficit due to inadequate fees for administration.

Current Challenges to Upper Management:

Two specific events in the last four years have complicated the management of agency operations through an infusion of cash. First, the single-family program has almost doubled, increasing total assets to almost \$1.7 billion in the fiscal year ending 6/30/2023. Second, COVID-19 disrupted agency operations through the various mandates and doubled the workload. Specifically, SC Housing was awarded \$662 million dollars due to COVID-19 to assist with rents and mortgages for South Carolinians who lost their jobs or were financially affected by COVID-19. These events, in addition to the regular operations of the agency, necessitate better data-gathering techniques to provide information for critical decisions.

For SC Housing to cover its operating expenses, the Program areas of the agency must collect fees adequate to cover direct and allocated indirect expenses related to the support activities of the program areas. The operational goal for SC Housing should be to remain self-sufficient by covering all expenses, both direct and overhead, while continuing to meet the vision of the agency. While this is the agency-wide goal, this project will focus on one Program area to examine reporting requirements in detail. The intent is to provide a test case as a basis to expand the analysis to the rest of the agency in subsequent projects. A high-level SWOT analysis is provided (Appendix I) for the Single-Family program.

Data Collection:

To determine what information the management team needs to effectively evaluate the performance of the agency, data was gathered using two methods. First, a senior management survey (Appendix II) was conducted to determine what financial measurements were deemed useful in strategic planning and decision-making. Second, one-on-one discussions with senior management and operational directors were performed to further refine the information that each manager would find most useful within their area. Concurrent with the interviews, examples of currently available reports were reviewed and examined for information included versus the needs of the various areas. A list of requested measurements was obtained for each area and combined into an Informational Needs List. (Appendix III)

Next, a detailed interview with the executive director was performed to determine the top reporting priorities and what type of reporting the Board of Commissioners would like to see.

Finally, the various measurements discussed were grouped into three categories, with the frequency of measures noted as daily, weekly and monthly:

- performance measure-tasks are being completed within the prescribed procedures,
- compliance measure-tasks required are being completed accurately and in compliance with applicable laws, and

- financial measure-results provided by a financial accounting system based on the actual revenues and expenses incurred by the program area.

Survey results provided some examples of reportable items. Requested input from various directors determined what financial information they would deem useful. Many of the responses from the directors were for reporting items NOT currently tracked in SCEIS. To gather additional information, interviews and informal individual meetings were performed to narrow down the intention of the requested measures and the potential scope of the data gathering. To determine financial measures with data that are currently available at the agency, the current reporting was evaluated, including system and manual tracking sources.

Data Analysis:

After reviewing the data gathered, there are numerous reporting measures valued by the various departments. Many potential reports could be developed...far more, in fact, than can be addressed through a single project. To allow other types of reporting to be successfully developed in the future, this project will focus on some specific financial reporting. SCEIS has been in use for over 12 years within the agency. It contains lots of data for analysis that has not been developed into a useful report. The current limited financial reporting is provided yearly, quarterly, monthly and as requested. Throughout the data gathering process, a single theme rose to the top, "Is SC Housing charging enough fees for the services to cover all operating expenses of the agency?"

Currently, expenses are being tracked in detail, which allows for greater detail in reporting. Revenues are not being reported in enough detail. The revenues are currently reported as required and are reported in the correct locations. Major reporting is easy to complete based on the output of the system, such as year end financial reports. What is not present are enough details on the various types of fees to allow reporting to be completed at the department level. Details are what matter to successfully answer this question but having these details will also allow for enhanced reporting to be developed in the future.

Project Scope:

The project will focus on the Single-Family program which provides first time home buyers with loans for home purchase. The Single-Family program collects fees for administering these programs to fund area operations. Two areas comprise the Single-Family program: Production and Servicing. Production makes new loans through a review process similar to a bank. Once the loan is made it is transferred to Servicing. Servicing is the day-to-day operation of collecting current and past due mortgage payments, paying escrow related items, and providing statements. Production and Servicing collect different fees based on the cost of providing services.

For all programs, fees are recorded in SCEIS by journal entries. To determine if fees are being recorded properly within SCEIS, journal entries were compared to the supporting documentation. The results of these findings were then compared to the information that is tracked by the area-specific directors. Directors track information outside of SCEIS based

on services offered and expectation of fees be collected. Upon researching actual fees collected and placed in SCEIS, a common thread appeared-all fees are recorded in a single general ledger account. This makes it very difficult to analyze fees collected based on the functional area it should support. While the fees are correctly being associated with each program area, the details are difficult to ascertain by functional area. While the total fees in current high-level reporting provided monthly, quarterly and annually are accurate; the aggregation of the data does not provide the ability to review the operational details of a specific functional area. In some cases, fees for one functional area are being allocated to another area. In the case of the Single-Family Program a fee for Production is being allocated to Servicing.

Implementation Plan:

To ascertain whether the Single-Family Program functional areas are operating at a loss, the total fees collected must be compared to the expenses incurred and any allocation of support services. Expenses and allocations of support services are known and are currently tracked in the aggregate. It is the detail reporting of fees collected that will be enhanced. Before fees can be tracked by functional area, changes will be required to the underlying recording of the financial data in SCEIS.

Step 1: Various fees will be assigned new general ledger account numbers in a manner that makes it easier to identify when an account is related to production or servicing. New general ledger accounts will be requested from the Comptroller General's Office.

The request is for some general ledger accounts with two modifications, first in the account number's eighth digit, a "1" will replace the "0" for production and a "2" will replace the "0" for servicing. Second, the account number's tenth digit number will begin with "1" and increase by one for each specific fee charged. See Appendix IV for examples of how the General Ledger account numbers would change to provide detail on the various types of fees collected.

Step 2: Each fee will be correctly associated with the functional area responsible for that fee. Discussions with area directors will develop a fee matrix (TBD) for the various types of fees and corresponding program areas.

Step 3: The Finance department will update the various procedures for recording fees based on the new general ledger accounts and fee matrix.

Step 4: After implementation of the new accounts and corresponding procedures and prior to the financial close of the month, Finance department staff will perform an analysis of fees collected since the beginning of the fiscal year. Each type of fee will be documented and accumulated based on the new matrix. A journal entry will be proposed to reclass the subtotals of each new fee class from the previously used general ledger account to the new general ledger accounts.

Step 5: At the beginning of a new month after implementation, Finance will begin recording fees under the new general ledger account structure based on the fee matrix.

Step 6: Once the process is operating smoothly, the managers of the Finance department will ensure that crosswalks are updated for the monthly, quarterly, and annual reports for both budgeting and financial purposes. Master data will be updated in the various reporting tools to insure both the new general ledger accounts and program area modifications flow to the correct report grouping.

Single-Family Implementation Timeline:

Target Completion	Activities
End of FY24 Period 11 (May 2024)	Steps 1, 2 and 3
End of FY24 Period 12 (June 2024)	Step 4
During FY25 Period 1 (July 2024)	Step 5
During FY25 Period 1-3 (July to September 2024) and forward periods	Step 6

After implementation of all steps, new reports can be compared to the information tracked by the area directors to verify accuracy of totals captured under the new methodology. New reports can be created from BEX and BOBJ (SCEIS reporting tools) to be integrated into the process to provide real time data to review and analyze performance of the various areas. This will provide upper management with information to determine if each area is self-supporting. Fine tuning to the process can be implemented based on any findings. Absent any major additions or changes to the program and area structures, this process should result in more useful detailed reports.

After the new reporting process is complete for the Single-Family program, the same project process and methodology can be implemented across each of the remaining programs. Development will be the second program to go through this same process with a tentative date to complete the project implementation timeline of February 28, 2025. Rental Assistance and Compliance will be the final program to be reviewed with a tentative date to complete the project implementation timeline of July 31, 2025. This will ultimately enhance the reporting capabilities of the agency and streamline the decision-making process for fee setting.

Development Implementation Timeline:

Target Completion	Activities
End of FY25 Period 4 (October 2024)	Steps 1, 2 and 3
End of FY25 Period 5 (November 2024)	Step 4
During FY25 Period 6 (December 2024)	Step 5
During FY25 Period 6-8 (December 2024 to February 2025) and forward periods	Step 6

Rental Assistance and Compliance Implementation Timeline:

Target Completion	Activities
End of FY25 Period 9 (March 2025)	Steps 1, 2 and 3
End of FY25 Period 10 (April 2025)	Step 4
During FY25 Period 11 (May 2025)	Step 5
During FY25 Period 11 to FY26 Period 1 (May 2025 to July 2025) and forward periods	Step 6

Evaluation Method

Beginning FY24 Period 11 (May 2024), Finance will have monthly meetings with both areas of the Single-Family program to review fees tracked in the previous month in the system. These amounts will be compared to the manual tracking completed outside of the system. Discrepancies will be researched and discussed. This monthly process will continue through the end of FY25 Period 3 (September 2024). At that time, a determination will be made whether to continue the monthly meetings.

Concurrently, Finance will provide Executive leadership with a new analysis of area operations. The new analysis will contain all Single-Family revenues collected, all direct expenses incurred and allocation of indirect cost of support services to the functional area. This report will utilize BEX and BOBJ. The report data will provide executive leadership with measurement and analysis tools to ensure the Programs are operating both effectively and efficiently. This data will also identify whether Single-Family is charging adequate fees for services provided.

Summary and Recommendation

The first thing of note when weighing this project potential is that there will be \$0 additional cost to the agency to complete this project. Finance will make use of the existing software and increase the reporting capability by adding new reporting groupings to allow additional levels of detail to be reported. Second, much of the identification groundwork has been laid by the project research process. Third, the implementation process will require a small amount of time from the directors and staff to validate the results and update procedures, however the current manual tracking time will be eliminated in the future. This means staff will be able to spend more time on operations and analysis of data, and less on manual reporting.

Achieving success will not require any additional financial investment. Creative thought will be required on how to leverage the potential in SCEIS to letting the software work for the agency, instead of the agency having to work the software to meet its needs.

The output of the successful completion of this project through all of the program areas will have a significant impact on the reporting capabilities for SC Housing. Through the expanded use of additional General Ledger revenue accounts, accounting and finance will be in a better position to offer both internal and external reporting of financial performance both accurately and almost instantly, through the use of the various SCEIS reporting tools. Not only will this free up staff time, but the leadership of the agency, board of directors, external auditors and others who rely on the financial information will have more

confidence in what is received because of both the amount of detail that is provided and the timeliness of the data.

Information that is both accurate and timely is critical for any agency to make effective decisions regarding operations. Leadership cannot manage the operations of the agency entirely by the numbers that come out of the financial system. Instead these numbers can tell a story about the financial health of the various areas of the agency to help guide leadership to questions that need to be asked and topics that need to be researched that can facilitate ways to maximize both efficiency and effectiveness in agency operations and resource utilization.

Appendix 1:

SWOT analysis of Single-Family program

- Strength** Single-Family mortgage program is currently self-sufficient and growing. The agency manages over a \$1.1 billion mortgage loan portfolio that continues to grow. While the program can set some of its fees, it continues to offer most fees at or below industry average.
- Weakness** Single-Family mortgage program must operate under specific rules as set by State and Federal authorities. Single-Family is limited to how much it can earn on the spread between the Mortgage Revenue Bonds that are issued, the interest charged to the home buyers and eligibility requirements to participate in the program.
- Opportunities** The first-time home buyer market continues to be strong and grow as South Carolina has become an area attracting citizens from other parts of the country. There continues to be a source of funds for the Single-Family program for the next couple of years.
- Threats** Inflation, cost of services, use of the State of South Carolina's bond cap, funding sources, home buyer market conditions, and excess demand for services offered greater than what can be provided.

Appendix II

Survey:

Item	Frequency	Evaluation	Ranking
Cash balance	Daily		
Loans outstanding	Monthly		
Revenue & Expenses	Daily		
Loan receipts	Daily		

Instructions:

Item For this column, this should be what financial measure/information you would like to see. I have given 4 as an example of some I think we need. Please add additional items as you see fit.

Frequency A drop down box is included in this column for how often this information needs to be provided. If you need some other frequency, make a note below.

Evaluation This tells how important this measure is to you. Use the dropdown as shown

Evaluation	Ranking
<input type="text"/>	<input type="text"/>

Critical
Highly Important
Important
Unimportant

Ranking This column should be completed last. Once you have identified all of the other information that you would like to see, rank all of the lines from most important to least important.

Appendix III

Informational Needs List

Loans outstanding, by both count and total value

Loans past due, by both count and total value

Loan receipts

Fund balance of specific programs

Program budget to actual results by month and year to date

Fees collected by type

Excess of fees over expenses, including allocations

Appendix IV

Examples of proposed changes to the General Ledger account set up

Fee Description	Current account	Proposed account
Administrative Fee	4310010000	4310010100
MCC Issuance Fee	4310010000	4310010200
MCC Reissue/Modification Fee	4310010000	4310010300
Extension Fee	4310010000	4310010400
Late Delivery Fee	4310010000	4310010500
Final Document Late Delivery Fee	4310010000	4310010600
Lender Application Fee	4310010000	4310010700
MCC Application Fee	4310010000	4310010800