

# City of Waterloo, Iowa: Organizing a Chief Financial Officer Function

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## 1. INTRODUCTION

The finance officer (FO) for the City of Waterloo, Iowa, had resigned to find a position in the private sector.

Earlier in his term, the city's mayor had appointed a citizens' advisory board to advise him on the city's finances. The city's financial needs were growing, but it was experiencing a shrinking population and corresponding decrease in its tax base. The mayor felt that citizens' input on the city's financial situation would be beneficial. The advisory board's responsibilities included monitoring the city's financial position, making recommendations for reducing costs, reviewing audit reports, and other finance related responsibilities. The advisory board consisted of a representative from the city's bond underwriters, an accounting professor from the local university, a local banker, a representative from the Waterloo office of a public accounting firm, and three other citizens interested in the city's finances.

During an advisory board review of the city finances shortly after the FO had resigned, board members noted that the city's financial functions appeared to be scattered throughout the city's administrative activities. The board recommended that the mayor take the opportunity presented by the vacancy in the FO position to review the city's financial activity structure to determine the appropriate responsibilities and activities for a chief financial officer (CFO) function. Following its initial review, the citizens' advisory board recommended that a CFO with expanded

financial responsibilities be hired to replace the FO in order to provide a more efficient and effective finance function.

The mayor decided to have a consultant evaluate whether a CFO function was best, and if it was, what responsibilities the CFO should have. He believed that an outside, independent consultant would bring an expertise and independence to the situation that was needed to convince the citizens of Waterloo and the city council of the need of a CFO function and the additional cost of hiring a CFO instead of an FO. He felt that an outside consultant's recommendation would have more credence than recommendations from city personnel or a board appointed by the mayor.

### 1.1. BACKGROUND ON THE CITY OF WATERLOO

Waterloo was incorporated in 1868 and is the Black Hawk County seat. It is the fifth largest city in the State of Iowa, with a population of about 67,000. The city's population has been decreasing steadily, however. A mayor-council form of government runs the city. The city is organized into 20 operating departments that have nearly 600 employees whose activities are specified by the mayor. The public services provided by these operating departments include police, fire, library, leisure services, cultural and arts activities, human rights, street maintenance, engineering services, and others. Annual general government expenditures are approximately US\$105 million and growing.

## 2. CURRENT ORGANIZATIONAL STRUCTURE OF THE FINANCE ACTIVITY

Figure 1 illustrates the current organizational structure for the finance activities for the City of Waterloo. A solid line connecting the different functions shows that the function is directly reportable to the person above it. The dotted line indicates that the functions are support staffs that are not directly reportable to the person above them. For example, the FO does not report to the finance committee, but may rely on the finance committee for advice. Also, the FO advises the accounting functions (e.g., bookkeeping), but these functions do not report to the FO. The city clerk is appointed by and reports directly to the city council. In addition, the city clerk does have a responsibility to perform tasks assigned by the mayor.

### 2.1. FINANCE OFFICER

Currently, the FO is responsible for three functional areas: (1) cash management, (2) budgeting, and (3) internal audit. The cash management function includes bank reconciliations and investments. As part of the investment responsibilities, the FO also provides information to bond rating agencies for the city's bond rating, manages the city's debt, and develops investment policies and procedures. The budgeting function requires preparing the yearly budget and completing grant applications for the city. The internal audit function includes pre-auditing of payables before payment, aging account receivables, overseeing the financial management of major capital and grant-funded projects, and maintaining the fixed asset records of the city.

Specific FO duties as included in the city's job description are in section 6. As can be noted from the job description, there are several activities that are supposed to be the FO's responsibilities but currently are done by personnel not under the control and authority of the FO. This includes directing all municipal fiscal activities to include payroll, accounts receivables and payables, accounting, and purchasing. The job description also calls on the FO to be responsible for maintenance of central accounting systems, accounting controls, data processing reporting, and preparing of financial reports. Additionally, he/she is supposed to be responsible for administering the city's risk management (insurance) program and conducting ongoing analyses of the associated costs for each insurance program area and the development of bid specifications, overseeing the city's purchasing system, and selecting and evaluating software.

### 2.2. FINANCE COMMITTEE

The FO is supported by, but not answerable to, the city finance committee. The finance committee is a standing committee that consists of three city councilmen who are appointed by the mayor for two-year terms. The responsibility of the finance committee is to evaluate and approve all purchase requests over US\$500.

### 2.3. CITY CLERK

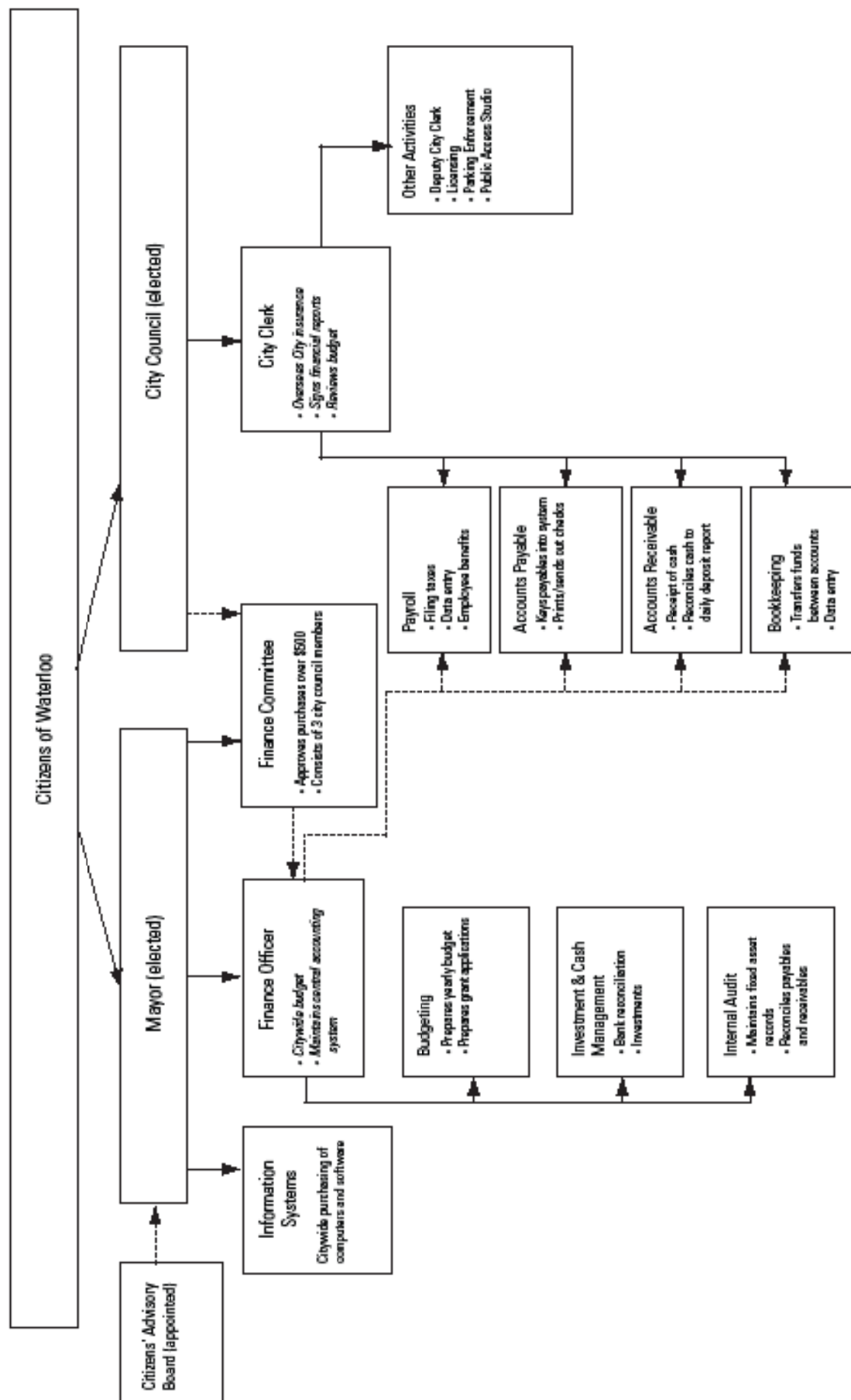
The city clerk's current responsibilities are in effect those of a chief administrator and include: (1) overseeing city finances, (2) issuing business and animal licenses, (3) organizing city council meetings, (4) recording and maintaining city ordinances, and (5) managing parking enforcement. Finance-related responsibilities of the city clerk include overseeing liability and property insurance (included in FO's job description) and doing various financial reporting for the city to include police/fire pension reporting, state/federal tax reporting, Iowa Public Employees Retirement System pension plan reporting, and workmen's compensation reporting. The city clerk also oversees city employee benefits, including life, health, and dental plans. Finally, the city clerk reviews the budget, posts notices about the budget, and signs the financial reports.

Traditional financial functions reporting to the city clerk are the accounts receivable, accounts payable, payroll, licensing, and bookkeeping functions. Although all of these functions report to the city clerk, the FO has responsibility for providing financial policy, procedures, and other advice to these functions. Under the current arrangement, staff members question the FO about financial procedures and turn to the city clerk with any issues that affect day-to-day management of the operations. For example, the city clerk is notified when an employee cannot work during the week and approves sick leave. It is up to the city clerk to make sure that person's work gets done for the day. Also, the city clerk is responsible for the annual performance reports of the individuals working in these functions.

### 2.4. OTHER DEPARTMENTS

There are some departments that do their own billing and receiving of cash, make small disbursements, and have petty cash accounts at their disposal. These financial activities are for services provided by the departments to constituents and generally require only a couple of hours per week to accomplish. They are done by administrative personnel within the department. Procedures, established by the finance officer, are in place for these departments to follow in accounting for the receipt and disbursement of cash.

**Figure 1**  
**Waterloo Finance Organizational Structure**



The street department, police department, fire department, buildings inspections department, library, airport, and ice arena are included in this category.

## 2.5. PURCHASING

Waterloo does not have a centralized purchasing department. All departments are allowed to make purchases up to US\$500 without approval. In these purchasing situations, a single individual can authorize, procure, receive, and authorize payment for a purchase. Purchases over US\$500 must be authorized by the finance committee but are still made by the department. For purchases over US\$10,000, authorization must be granted by the city council prior to purchase by the department. A few purchases such as office supplies are done in a centralized fashion.

## 2.6. MANAGEMENT INFORMATION SYSTEMS

The management information systems (MIS) department has one employee that reports to the mayor. He handles the purchasing of all computers and software for the city. All computer and software purchases must go through the computer technical review committee before purchase.

## 3. CONSULTANTS ARE HIRED

In order to determine the appropriate organizational structure for the city's financial activities, consultants took two approaches. First, they researched organizational structure theories and concepts in the classical organizational behavior literature and the public administration literature. Second, they examined the organizational structure of the finance activities of other Iowa municipalities. The specific duties of the City of Waterloo finance officer are recapped in Appendix A.

## 4. THE VIEW FROM THE PRESS BOX

City governments are subject to a great deal of public scrutiny. Many of their deliberations, actions, and decisions are reported by local media, including newspapers and local television. When a key senior government official resigns from public office, such as occurred with the Waterloo finance officer, it is common for the public to wonder why. Given the stewardship role of city officials, there can be concerns about possible wrongdoing. Although these concerns may always be present, a major change in the local government can highlight the public's interest in the reasons for such a change. As a result, key government officials, such as the mayor in this case, need to be responsive to the public's questions. Because of an upcoming mayoral election

and the expected release of a state financial audit of the city, there is additional interest in the city's finances.

## 5. REQUIRED

**Question 1:** Should the City of Waterloo reorganize its finance and accounting activities? If so, how should they be reorganized?

- What functions should be placed under the new chief financial officer (CFO)?
- Should management information systems and purchasing be placed under the CFO?
- What functions should report to the city clerk?

**Question 2:** Henri Fayol identified the following classic principles of organizational structure: authority and responsibility, unity of command, and unity of direction. How might these concepts be applied to Waterloo? Other "generally accepted" organizational principles include the following: span of control, pooling of knowledge, efficiency and effectiveness, and risk management. How might these concepts be applied to Waterloo?

**Question 3:** What does the finance function look like in other major Iowa cities? Could any of them be used for benchmarking?

**Question 4:** The Institute of Management Accountants (IMA®) has written two Statements on Management Accounting (SMAs) that could be useful in analyzing this case: "Redesigning the Finance Function" and "Tools and Techniques for Redesigning the Finance Function." Summarize these statements and apply them to Waterloo.

**Question 5:** The balanced scorecard (BSC) is a useful tool for organizations to match their performance measures to their strategy. Would it be possible for a city to use the BSC to aid in reorganizing its finance function? If so, what would be an example for the City of Waterloo?

**Question 6:** Discuss the relevance of internal controls for a governmental organization. Could the requirements from Section 404 of the Sarbanes-Oxley Act be helpful, even if not required, as a government designs, implements, documents, and tests internal controls? Does Waterloo need an internal audit function? Where should it be placed in the city's organization?

**Question 7:** What role do ethics play in a government? Would a code of ethics be appropriate? If so, what would it include?

**Question 8:** How might the mayor respond to the media's questions? What role might other media outlets such as Facebook play?

## 6. APPENDIX A

Specific duties of the City of Waterloo finance officer per the city's formal job description are:

- 5.1. Plans, organizes, and directs all municipal fiscal activities, including financial investments, citywide budget development, payroll, accounts receivable and payable, accounting, purchasing, billings, and collections.
- 5.2. Directs planning, organization, and maintenance of central accounting systems, including pre-audit, posting of expenditures, accounting controls, data processing reporting, investment policies and procedures, bond and other indebtedness issuance and control.
- 5.3. Plans and directs the compilation of various statistical, accounting, finance, monthly expenditure, and revenue reports for all city departments, state and federal government bond writing agencies, bond consultants, actuaries, and investment firms.
- 5.4. Develops annual citywide budget documents and recommendations and short- and long-term budget objectives in conjunction with department heads, mayor, and city council; engages in an ongoing analysis and evaluation of all aspects of the financial status of the city.
- 5.5. Drafts and revises proposed ordinances and resolutions relating to city financial matters such as investment policies and procedures.
- 5.6. Advises and consults with mayor, city council, and department heads on the financial condition of the city and legislative concerns.
- 5.7. Directs receipt deposits and investments of all city monies within established investment policies and procedures and applicable state laws.
- 5.8. Administers the city's risk management program, including health insurance plans, disability insurance plan, property insurance program, and liability insurance programs, and conducts an ongoing analysis of the associated costs for each insurance program area and the development of bid specifications.
- 5.9. Oversees the city's purchasing system.
- 5.10. Supervises, directs, and reviews work of finance staff.
- 5.11. Evaluates and selects applicable computer software for the finance activity.

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