

Financial Management, as well as Operations Management and Service Management, is an integral component of ITIL and ISO/IEC 20000 best practices.

This document will provide a foundation for organizations to understand and prepare for implementing Financial Management best practice processes, in order to support the delivery of communication and other technology services. Financial Management is an integral facet of the internationally accepted best practice framework defined by the Information Technology Infrastructure Library (ITIL) as well as the International Organization for Standardization International Electro technical Commission (ISO/IEC 20000).

Concepts and Definitions

Financial Management starts with budgeting. Value is increased as the processes expand into line item cost allocation and charging.

Financial Management encompasses all the planning, practices, and processes involved with enforcing sound stewardship of the monetary resources for the organization. Based on the maturity of the organization, Financial Management may include up to three fundamental disciplines:

Budgeting – processes that support the prediction and control of money within the organization.

Accounting – processes that identify costs by customer, location, service, and activity, allowing organizations to properly account for how money is spent.

Charging – processes required to properly assign costs to customers for supplied services.

Addressing Government Compliance Requirements

Sustaining an efficient and effective compliance program comes as a natural derivative to a mature Financial Management program.

Financial Management helps organizations address several fundamental business challenges such as sustaining a successful and efficient government compliance program. Many of the periodic audit requirements defined in section 404b of the Sarbanes Oxley (SOX) Act and the Office of Management and Budget (OMB) Circular A-87 and A-21 are addressed through an effective Financial Management program.

SOX is a federal government mandate for all publicly traded companies and requires an organization to illustrate adequate internal control over financial reporting. Automating the transaction records and reports that contribute to service distribution accounting is fundamental to SOX.

OMB A-87 and A-21 are also federal government mandates for all government and educational institutions receiving federal grants. The OMB Circulars dictate that all central service cost allocation plans and related documentation used, as a basis for claiming costs and cost recovery under Federal awards, must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

The alternative to conducting manually intensive and expensive audits that have no sustained or accumulative value is to implement a proactive and automated Financial Management program to manage compliance requirements.

Common Business Challenges

The key to planning and sustaining an effective budget is understanding the true costs of operations via immediate and comprehensive insight into operations.

Technology costs, specifically those associated with supporting communication services, are recognized as one of the top five operational expenses for any organization. Opportunities to control costs are directly related to the organization's ability to eliminate overpayments and improve efficiencies in processing invoices, managing disputes, and tracking ownership. The most mature organizations allocate costs directly back to the internal user. The direct benefit of charge-backs is the ability to provide financial insight to the recipient regarding provisioned services.

An organization will recognize sustained benefits from a Financial Management program if it can relate to any of the common business challenges outlined here:

- Inability to quickly analyze the cost of operations by business unit, by location, by service, or by support activity
- Incomplete information to provide to management and/or internal customers for properly forecasting budget requirements
- Inability to correlate actual lifecycle cost to procure, deliver, and support operations
- Lack of integrated financial, communication, and infrastructure tracking systems
- Massive quantities of invoices prevent accurate and timely validation
- Inability to automatically exchange information with other enterprise systems (e.g. GL, HR, A/P, etc.) requires high frequency manual intervention

Conducting a Self Assessment

The key to starting any initiative is understanding the goals and being able to measure the return on investment (ROI).

The table below provides assistance to help organizations assess the effectiveness of their respective Financial Management program.

Maturity Level	Common Characteristics of a Financial Management Program
0 – Absence	Bills are paid. However, there may be a history of late payments. Payment information is not included in budget forecast activities.
1 – Initiation	There may be procedures for procuring services and paying bills, but there is no sustained business practice to analyze and control costs.
2 – Awareness	Positions are responsible for facilitating the procurement and payment of services, but the processes may be working within their respective silos.
3 – Control	The roles, responsibilities, and authorizations that support the processes are defined and most often manually enforced. Key Performance Indicators (KPIs) are established to measure the effectiveness of the program and guide its continued improvement.
4 – Integration	Inputs into the procurement, chargeback, payment, and dispute processes come from and are fed into other well-controlled processes. Integrated technologies are employed to leverage efficiencies via automation. Processes are consistent and repeatable. Levels of quality delivery and control are prevalent. There is regular formal communication between support personnel and management who are working to support different processes. Key Performance Indicators (KPIs) are established to measure inter-process effectiveness. Quality and performance metrics are shared between processes.
5 – Optimization	The processes are recognized as critical enablers to improve the effectiveness of the business. Activities and processes are directly linked to corporate objectives. Assessments are used to drive innovation and improve organizational effectiveness. Management is made aware of performance via automated delivery of performance reports.

Conquering the Naysayer

Understanding the potential misconceptions is key to establishing project inertia.

The list of reasons to discredit the value of a Financial Management best practice framework tends to be long and often promoted by very intelligent and hard working people. People interested in championing an effective program need to first bring the disparate units together to focus on a common attainable goal. Start small, and let the organization continue to improve the effectiveness of the program as it realizes the incremental benefits.

The fundamental reality that prevents organizations from embracing a best practice framework is that the organization is stuck in a reactive state of business and does not have sufficient buy-in from the proper levels of management or customers. Like technology, management is only an enabler. After a series of ineffective organizational changes, coupled with significant financial and personnel investments that yield unsuccessful results after implementing new technology solutions, organizations often begin

to question the long-term success rate and effectiveness of a best practice framework. Naysayers are always well prepared to derail a project at any time. The key to overcoming negative mindsets is to establish a strategic plan willing to embrace the negative perceptions. The list below provides insight into the most common arguments to overcome in order to start and sustain a successful Financial Management program:

- There is no benefit to saving money. It will simply be redirected to support a different, less efficient organization.
- There is no opportunity or prevailing need to change from the way we have always done business.
- There is a limited timeframe to implement and no opportunity to refine the changes.
- Individual groups purchase technology solutions. Leveraging improved efficiencies between support groups is outside the traditional corporate culture.

Measuring Success

The ability to establish milestones of success will enable a growing program that is accepted by the entire organization.

The key to achieving success is establishing SMART objectives. The purpose of the SMART framework is to define the immediate priorities of the organization and make sure the implementation is properly aligned with the corporate mission. Each initiative to mature the Financial Management program should have clearly defined objectives. SMART objectives satisfy the following criteria:

1. Specific to implementation milestones
2. Measurable against value achieved
3. Appropriate to the customer's requirements
4. Realistic to substantiate ROI and timeframe
5. Time-bound to establish when and how

Some good examples of SMART objectives include the ability to:

- Provide immediate insight to the configuration and cost of services by type and location
- Eliminate vendor billing errors by at least 7%
- Streamline the processes involved in reconciling invoices against services and contract rates
- Allocate costs for provisioned services and support activities
- Reduce operational expenses by at least 10%
- Alleviate the manual overhead activities associated with producing information for external audits
- Facilitate calculations for planning budgets and financial forecasting