



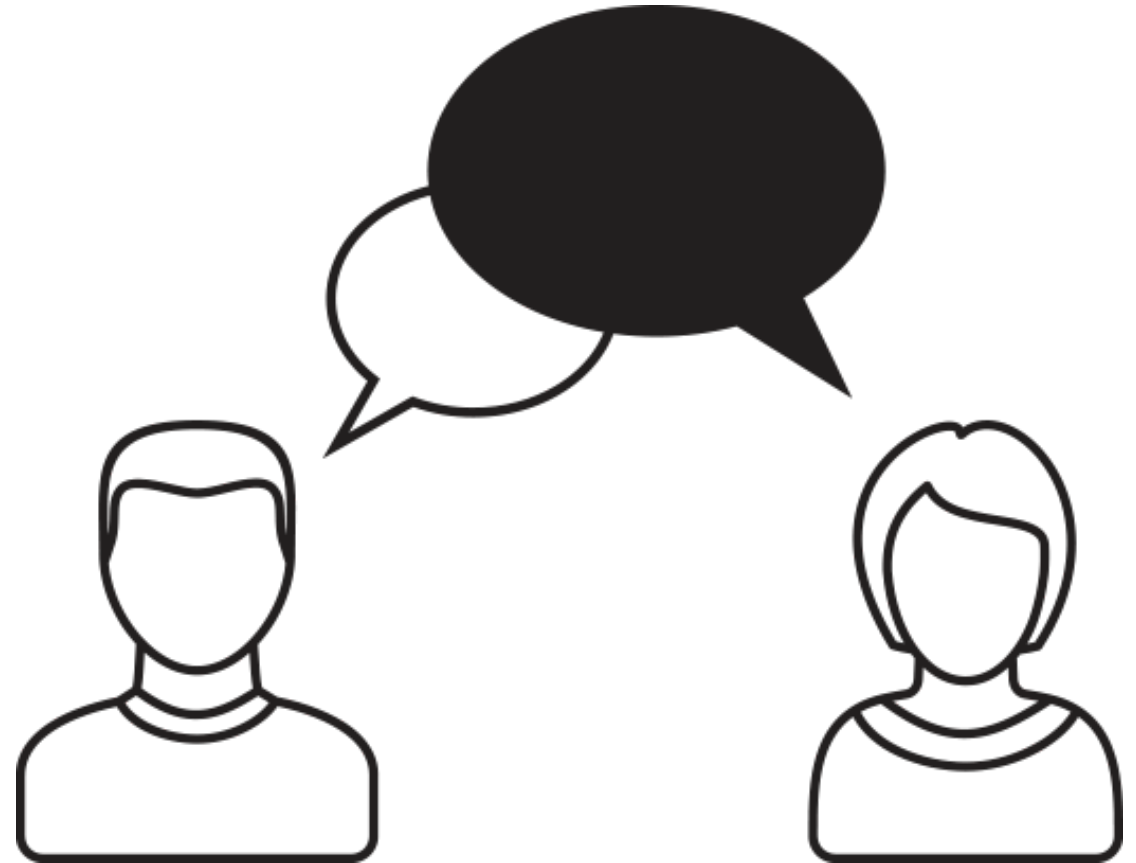
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IT Financial Management | PPM Relationship

Your Guides: Eric Van Blarcum, Dan Greer

Introductions

- Take 5 Minutes
- Turn to a Person Near You
- Introduce Yourself



Agenda

- Department Financial Concepts
- Department/Cost Center Budgeting/Forecasting
- Challenges
- Other Best Practices

How does my financial forecast and budget (project/program/portfolio) relate to the department/cost center budgets that finance prepares? Is there a better way to link the two together? This is a topic many organizations struggle with, and this session will review tools and processes that can help solve this problem.

Department Financial Concepts

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Financials 101 - Key Terms

- GL = General Ledger. This is the type of system where company financial transactions are placed.
- (GL) Account = We classify costs by type of cost. Companies will create a “chart of accounts” that lists the categories of spend they want to use for rollup. Examples include: Internal Labor, Consulting, Hotel, Car Rental, Insurance, etc. The larger the company, the more accounts they normally have. Every expense or bill that comes in is “coded” to an account so the cost will roll up in the financial statements
- Cost Center = Usually a department used to categorize who incurred the expense. Some companies have a cost center for each manager, some for each director, etc. Sometimes projects are so large, a company creates a cost center for them. Every expense or bill that comes in is “coded” to a cost center so the cost will roll up into the business unit that incurred the expense.

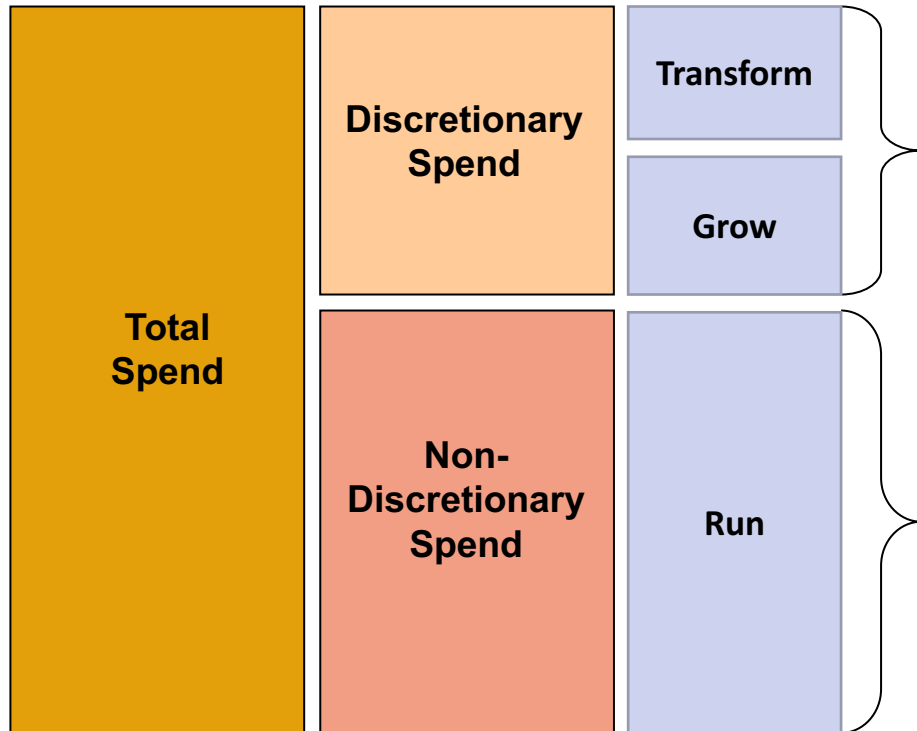
Forecast/Budget Process



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- How Many of You Are Involved in Cost Center Budgeting?
- What Tool Do You Use For Cost Center Budgeting?
 - Excel
 - PeopleSoft/SAP/JDE
 - Hyperion
 - Apptio/Nikus/ServiceNow
- When Do You Start Next Year's Budget Process? When is it Finished?

Financials 101 - Spend Components



Discretionary:

“CREATING NEW VALUE”

This portion of the spending is determined by the company’s strategic appetite. A company must decide how much “discretionary” spending is needed each year. Therefore the budget for this area is set annually and can fluctuate.

These costs are variable in the short-run.

Examples include new product development and enhancements to existing systems or assets.

Non-Discretionary:

“KEEPING THINGS RUNNING” or “KTLO”

This portion of the spending is determined by the existing asset/system base. Each organization has a level of spend needed, and they are accountable for creating efficiencies and productivity improvements in this area.

These costs are relatively fixed in the short-run.

Examples include maintenance to existing systems or assets as well as keeping the current operations running.

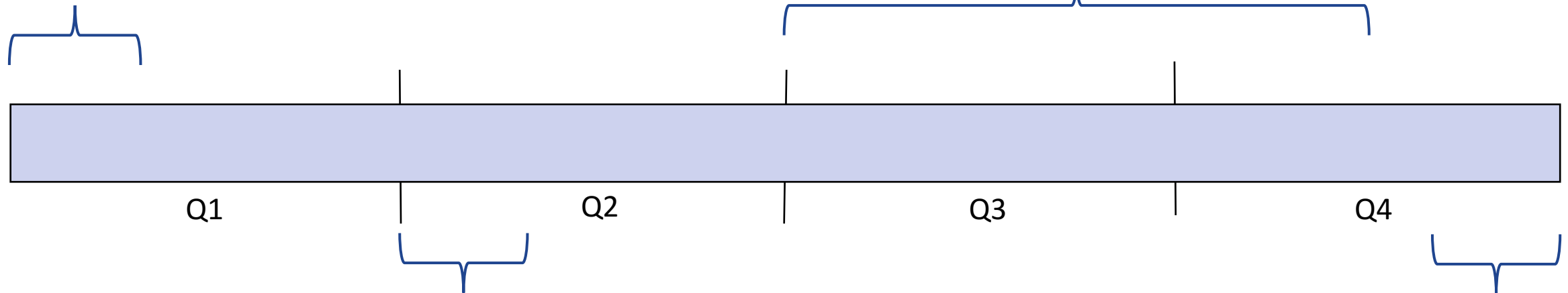
Fiscal Calendar/ Planning Calendar

New Fiscal Year

- Hiring new position
- Kicking off Projects
- Staffing Projects

Annual Planning Season

- Starts for before Finance department
- includes 2-3 passes before submitting
- Has to hit targets for Opex/Capex set by CEO/CFO



Updated forecasts

- Quarterly usually the official forecast
- Sometimes monthly for just BU

End of fiscal year brings:

- **shortfalls** (cut or shift to new year)
- **carryovers** (delayed to new year or be accrued)
- **surplus** (must be spent or forfeited)

Department/Cost Center Budgeting/Forecasting

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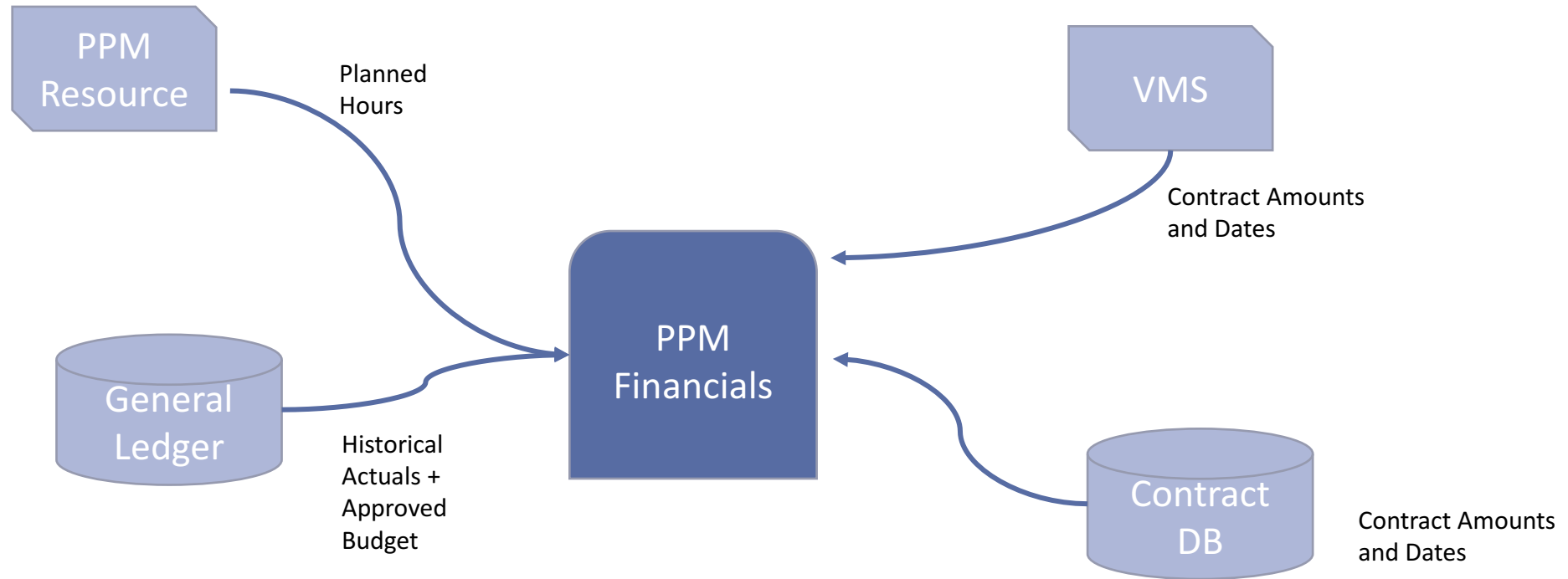
Cost Center/PPM – Forecasts/Budgets

Area	Cost Center/Department	PPM
Granularity	Cost Center and Account	Project and Cost Category
Components	All Spend	Typically Only Discretionary
Input Sources	Contracts, Projects/Ideas, HR Employee Info, Asset Info	Project Team Forecast, Bids from vendors
Owner	Finance, Department Head	Project Manager
View	Cash and P&L	Typically Only Cash
Timing	Annually + Typically Finance Quarterly	Annually + PM Monthly*
Actual Cost	When accrued or when received/applied	When fed by GL or when time tracked
Purpose	Company Financial Statements	Directionally Correct Decision Making

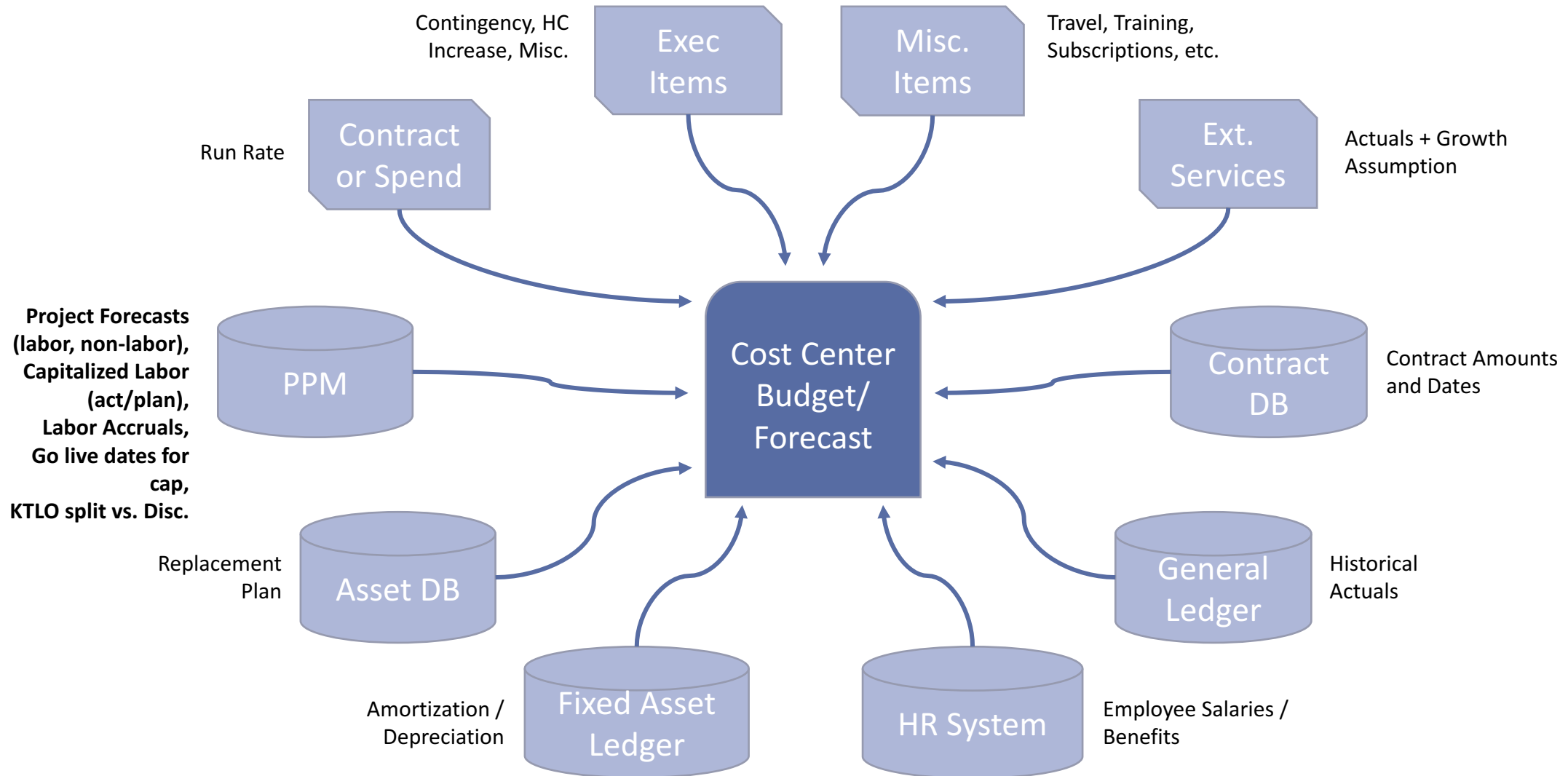
*some monthly's are official vs. informal, depending on finance

Budget/Forecast Compilation

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Budget/Forecast Compilation



Key Challenges – Open Mic

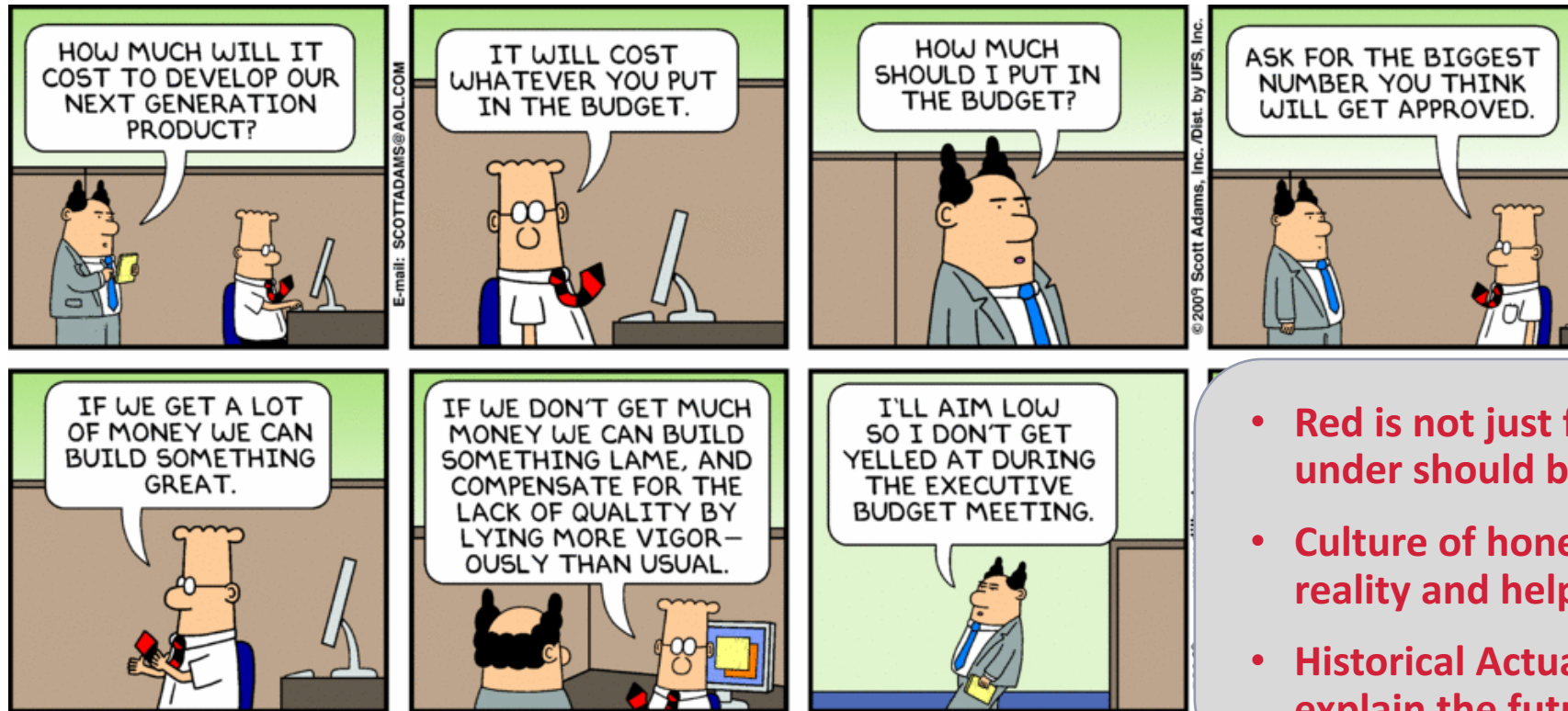
- What Challenges do You Have Merging Cost Center/Department and PPM Budgets/Forecasts?
- Who Has a Good Process? What Does it Look Like?

Challenges

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Key Challenges – Honesty in Forecasts



“Everybody Lies” – Dr. House

- **Red is not just for over-budget: Too much over or under should be “red”**
- **Culture of honesty: PM role is to communicate the reality and help push for the best possible outcome**
- **Historical Actuals: Use lagging metrics to validate and explain the future**

Key Challenges – No Source for Budget Loading

- No Contract/Application System – Left to Guessing, Manual Amortization
- External services look at growth (i.e. Telco / HW refresh) based on run rate and guess on growth – no true trending (is the X% year over year?)
- Misc. budget items are not part of a “project” – training, travel, subscriptions, etc.
- Trying to estimate carryover POs six months before the year end

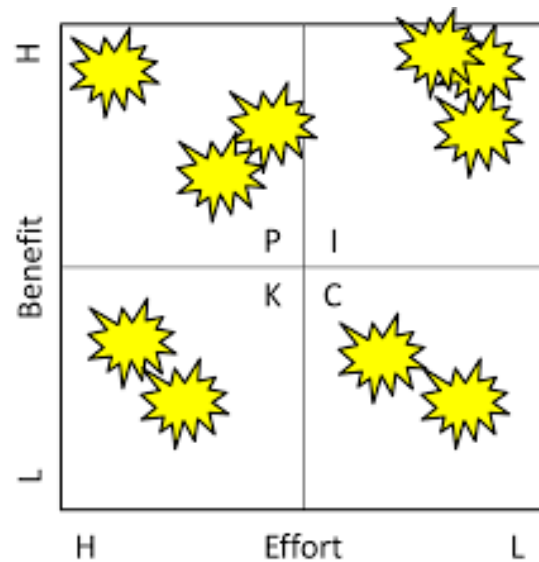
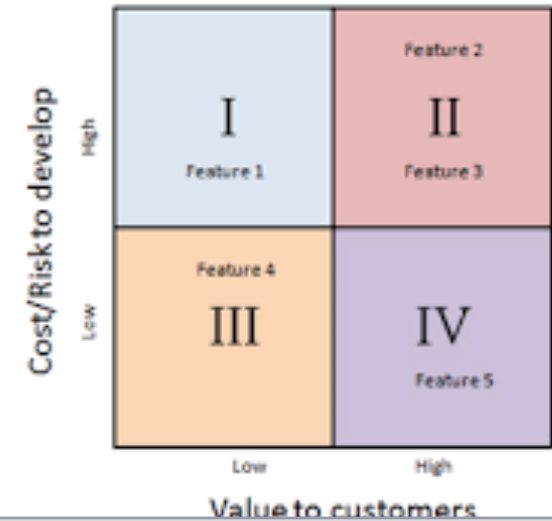
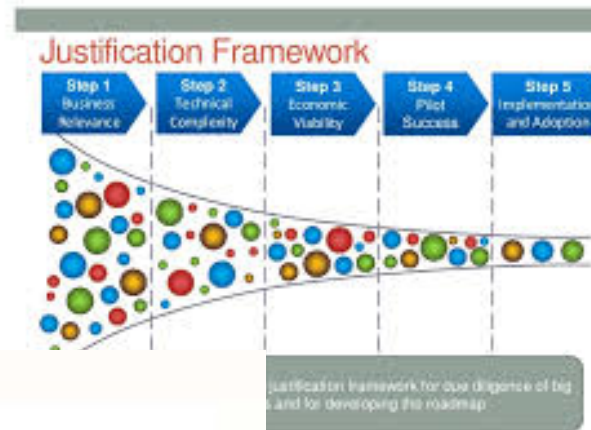
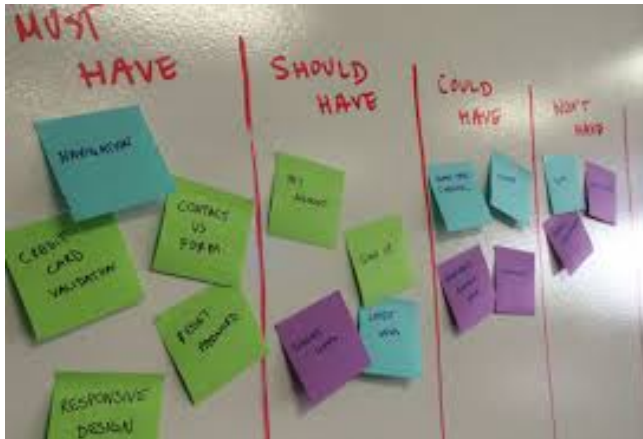
- **Need to have a system of record for contracts for applications, maintenance, services**
- **Create “projects” in the forecast to allow forecasting of misc. items**
- **Do Trend analysis for services**

Key Challenges – Imperfect Information



- Culture change: Ensure early estimates are not taken as truth (IT folks are skittish)
- Update budget/forecasts as future stage gates are passed

Key Challenges – Prioritization



PRIORITIES

- 1.
- 2.
- 3.

- Establish a method for prioritization. This does not have to be fact based – it can be a combination of fact and manual updates – as long as there is a 1-n list provided

Other Best Practices

- The PPM is not system of record for finance – do not try to make it match 100% (It would be cost prohibitive to keep in sync).
- The PPM tool should be used for directional financial performance. A small variance (under 5-10%) is okay
- Need Central Group with Financial Prowess
- Show back costs associated with drivers vs. just the Cost Center to give leadership levers to pull to reduce costs
- Have some repository, outside of Excel, for budgets/forecasts. Tools in marketplace – ServiceNow, Nikus, VMWare, Apptio

Questions?



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