

Final project, designing a financial control system, from Dr. Gerald Miller of Rutgers University

THE FINAL PROJECT

Consider the following statement made by two recent observers of financial management systems (from the first page of the syllabus (Susan L. Riley and Peter W. Colby, 1991, *Practical Government Budgeting*, Albany, New York: State University of New York Press, 119):

Every local jurisdiction has its own practices within the bounds of state requirements for spending, but the issues are about the same everywhere. Agencies view [financial management] as a positive resource to be used to accomplish their mission, goals, and objectives. They favor maximum discretion to use dollars as they best see fit and tend to view both limitations and reporting requirements as wasteful obstacles to getting the job done. [Chief Financial Officers] see [financial management] as a series of procedural rules and substantial limits designed to curb the possibilities of waste, fraud, and abuse, and to protect the fiscal health of the local government. Both perspectives have validity, and the balance between them is probably best struck when each side pursues its claims with vigor.

Consider another view from Robert N. Anthony and David W. Young (*Management Control in Nonprofit Organizations*, Boston, Irwin-McGraw Hill, 532):

In any organization, for-profit or nonprofit, the right balance has to be struck between freedom and restraint. *Freedom* is needed to take advantage of the ability and knowledge of the person on the firing line. *Restraint* is needed to ensure that management policies are followed and to reduce the effect of poor judgments or counterproductive decisions by lower level managers.

In nonprofit organizations, there are two complications to attaining an appropriate balance between freedom and restraint. First, the absence of profit as an overall basis for measuring performance usually calls for somewhat less freedom and somewhat more restraint than in a for-profit organization. Second, the presence of professionals in many nonprofits introduces a level of knowledge about client needs that senior management must consider carefully.

This is a matter of degree. Many nonprofit organizations, particularly government organizations, impose far too many and too detailed restraints on first-line managers. Sometimes this is caused by the *goldfish bowl problem*. Errors are likely to be played up in the newspapers, and, as a protective device, managers prescribe rules, which they can point to when errors come to light: "I am not to blame; he (the sinner) broke my rule." The detailed restraints also result from encrustation: a sin is committed, and a rule is promulgated to avoid that sin in the future; but the rule continues even after the need for it has disappeared. No one considers whether the likelihood and seriousness of error is great enough to warrant continuation of the rule.

Investigate the problem of balance between freedom and restraint, the problem of “red tape.”

Take any major set of procedures (accounting systems, purchasing systems, risk management systems, position control systems, payroll systems or anything else) and test the validity of the observation above.

Develop your own set of criteria for a good financial control system (whether it be accounting, purchasing, risk management, position control, payroll or anything else). Then, contact knowledgeable people in a government or nonprofit which you do not work for. Diagram and describe the procedures used by the people in that government. Investigate the operating or line agency view and the finance office view of the set of procedures by interviewing a knowledgeable individual in each. Do you find tension between the two; the agency staff think that the process should be looser and the Chief Financial Officer wants it to be tighter?

Determine how well the specific financial control system works by the criteria you set out initially. Since this is a major research piece, I recommend that you get started as quickly as possible. The due date is the final examination date, usually our last normal meeting time.